BUSINESS WEEK

December 30, 1961

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The shape of world business in '62

Special report on

Europe united

Big industrially and expanding fast, it raises new problems and opportunities for U.S. business

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In BUSINESS this WEEK

December 30, 1961

General business

Special report

The departments

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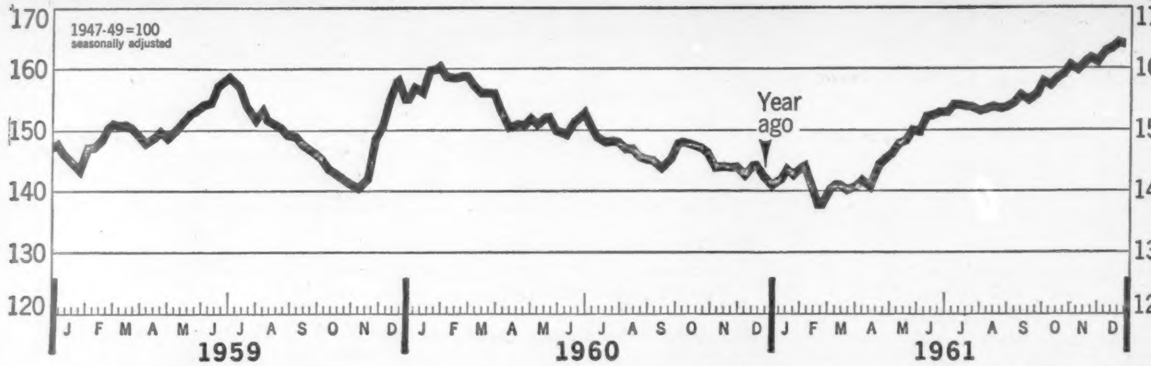
Number 1687

Figures of the week



	1953-55 average	Year ago	Month ago	Week ago	§ Latest Week
BUSINESS WEEK index chart	133.3	142.9	162.0	164.9r	164.9*
Production					
Steel ingot [thous. of tons]	2,032	1,325	2,032	2,200r	2,225
Automobiles	125,553	114,941	124,292	165,219r	147,545
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	$52,412	$67,744	$70,167	$67,148	$58,748
Electric power [millions of kilowatt-hours]	10,819	15,535	15,330	16,695	16,330
Crude oil and condensate [daily av., thous. of bbl.]	6,536	7,139	7,210	7,355	7,299*
Bituminous coal [daily av., thous. of tons]	1,455	1,265	1,482	1,404r	1,423
Paperboard [tons]	247,488	285,977	332,276	341,752	334,531
Trade					
Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	48	55	55	52
Carloadings: all others [daily av., thous. of cars]	47	33	43	39	37
Department store sales index [1947-49=100, not seasonally adjusted]	121	305	180	298	333
Business failures [Dun & Bradstreet, number]	198	253	238	306	173
Prices					
Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	85.3	88.1	90.4	90.5
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	76.0	76.2	77.4	77.0
Print cloth [spot and nearby, yd.]	19.8¢	17.5¢	17.8¢	17.8¢	17.8¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.2	185.4	185.4	185.4
Scrap steel composite [Iron Age, ton]	$36.10	$29.17	$32.83	$34.50	$35.17
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	30.000¢	31.000¢	31.000¢	31.000¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	24.0¢	24.0¢	24.0¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	$2.34	$2.02	$2.12	$2.15	$2.09
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	30.13¢	33.58¢	33.54¢	33.54¢
Wool tops [Boston, lb.]	$1.96	$1.65	$1.81	$1.81	$1.81
Finance					
500 stocks composite, price index [S&P's, 1941-43=10]	31.64	57.53	71.79	71.63	71.11
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.08%	5.10%	5.11%	5.11%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2⅛%	3⅛%	3%	3⅛%	3¼%
Banking Millions of dollars					
Demand deposits adjusted, reporting member banks	††	62,725	62,644	65,987	66,247
Total loans and investments, reporting member banks	††	111,774	117,263	117,868	120,105
Commercial, industrial and agricultural loans, reporting member banks	††	33,458	33,253	33,462	33,957
U. S. gov't guaranteed obligations held, reporting member banks	††	30,178	33,867	33,931	34,370
Total federal reserve credit outstanding	26,424	29,316	30,465	30,780	31,401
Gold stock	21,879	17,925	16,975	16,925	16,890

Monthly figures of the week

		1953-55 average	Year ago	Month ago	Latest Month
Cost of living [U. S. Dept. of Labor BLS, 1947-49=100]	November	114.6	127.4	128.4	128.3
McGraw-Hill Indexes of New Orders [1950=100]					
New Orders for machinery, except electrical [seasonally adjusted]	November	104	162	196	190
Construction & mining machinery	November	111	137	138	144
Metalworking machinery	November	125	189	210	223
New contracts for industrial building	November	128	207	130	134

* Preliminary, week ended December 23, 1961.
†† Not available. Series revised.
r Revised.
§ Date for 'Latest Week' on each series on request.

The pictures: 17, Joan Sydlow; 19, WW; 20, Charles Buzek; 21, The Funny Products Co.; 22, WW; 23, U. S. Air Force; 25, (lt.) Herb Kratovil, (rt.) Benjamin Sonnenberg; 28, (lt.) American Airlines, (rt.) UPI; 36, 37, Herb Kratovil; 40, Link-Belt Co.; 42, 43, Joan Sydlow; 58, 59, 60, 61, Ed Malsberg; 63, 64, Pictorial Parade; 65 (top, lt.) Ron Appelbe, (top rt. & bot. lt.) Edo Koenig, (bot. rt.) McGraw-Hill World News; 75, Pictorial Parade; 86, UPI; 98, 99, Tibor Hirsch.

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READERS REPORT

Moving costs

Dear Sir:

I enjoyed your recent summary of the Administration's plans for liberalizing foreign trade policy [BW Dec.16'61,p140]. In the editorial, "Trade policy for a changing world market," it is noted that "over a wide range of manufactured goods, European industry has a definite cost advantage over the United States. . . ." This is certainly true, but it is amazing to me that no one has taken the trouble to analyze the makeup of prices of U. S. goods in foreign markets.

Rough figures suggest that at least 50% of the selling price overseas represents costs of distribution and transportation. Although your excellent magazine has had numerous articles on the trend toward more efficient distribution of goods in the domestic market, the potentialities of improving our cumbersome, inefficient, expensive methods of shipping to overseas points remain unexploited.

The actual cost of ocean transportation is quite low on a ton-mile basis, but in the over-all movement from inland factory to ultimate destination abroad there is inexcusable waste in handling, rehandling, export packing, warehousing, stowing aboard ship, unnecessary paper work, etc. (The airlines point out these wasteful steps very clearly in their air cargo ads.)

Edward V. Lewis
Assistant to the President
Webb Institute of Naval Architecture
Glen Cove, N. Y.

High-wage America

Dear Sir:

Your article, "Kennedy's big gamble" [BW Dec. 16'61,p23], overlooks certain fundamental economic facts that make Kennedy's drive toward free trade appear highly detrimental to the prosperity of American industry and American labor.

The United States is in a unique position in the world. It pays the highest wages of any country and has been the most prosperous country because of the enormous demand created by the laboring man by the purchases he makes with his high wages. No cheap labor country can attain such prosperity. Many of these countries can only produce such goods as they can

export to high wage countries because their own impoverished workers cannot buy them.

The high wages of our workers and the prosperity their purchases create can only be retained as long as these wages are protected by adequate tariffs. Without such protection the goods they make could no longer be made or sold, as they would be undersold by goods made by cheap foreign labor and shipped in under low tariffs or free trade. As far as President Kennedy's contention that lower tariffs would increase our exports is concerned: If we cannot compete with the products of cheap foreign labor in our country, we can hardly expect to export our goods and compete with them in foreign countries. . . .

One of the most alarming effects of low tariffs is that expanding American industries that should have been building new plants in this country to employ American labor at good wages have instead been buying or building plants in low wage countries, shipping their products back into this country under low tariffs, and putting the American manufacturer employing American labor out of business with cheap competition. . . .

Under President Kennedy's proposals these highly detrimental results would rapidly increase and reach a crisis that would destroy the wage structure of American labor and, with it, its vast purchasing power. You will soon hear of the plans of the Kennedy Administration to subsidize any American industries that would otherwise be put out of business. . . . Such subsidies would require sums so vast that no possible tax system would be able to raise the money necessary to pay them.

G. Sumner Small

Brooklyn, N. Y.

How to meet imports

Dear Sir:

The letter from John L. Kretzmer [BW Nov.25'61,p5] was of interest to us. He mentioned the harm which has been done to the marble, stone, and granite industry.

Our experience starting with this year is that the Germans have priced themselves out of the American market in the granite field. We can now fabricate European granites cheaper in the United States than it can be done in Germany.

A. M. Raisch

Brown & Raisch Co.
Detroit, Mich.

Business outlook BW

December 30, 1961

Records, yes, but not in all industries

The old year, paradoxically enough, can be marked down as one in which a long list of basic industries did worse than the year before but wound up feeling a good deal better.

Auto output was 5,550,000 against 6,694,000 in 1960.

Steel just topped 98-million tons, down a million tons.

Aluminum ingot production was a little over 1.9-million tons, about 5% below 1960 and 2% under 1959.

The thing that takes the sting out of the statistics is the shape of the year's curve, of course; **1961 ended on a strong up-beat as contrasted with the recession pattern at the end of 1960.**

Steel at top in December

December was the best month of the year in terms of raw steel production (as it probably was for all of those few industries that are little hindered by holidays).

More than 9.7-million tons were poured in the final month of the year. That brought the fourth quarter above 27.6-million tons.

Even a 27.6-million-ton quarter might not be exciting, of course, if the industry didn't see much higher figures right ahead.

The mills could, with very little trouble, pour 35-million tons in any given three months (and quite probably will in the second quarter of 1962); they came very close to it in 1960's first quarter.

Price cutting hurts aluminum

Aluminum—a continuous process industry, like steel, as far as the basic metal is concerned—was on the upgrade from April onward.

Thus, even though the year's output fell away from the successive records of 1959 and 1960, the drop would not have been too painful but for a single thing: **The industry's price curve, in a quite perverse way, ran directly counter to the production curve.**

Normally, prices might be expected to stiffen with rising production. In this case, however, **under-the-counter shading at home and idle capacity abroad prevented any such firming.**

The price shading came into the open toward the end of summer (and was all the more costly because of the battle with tin plate for the enticing can market). **But, with output back at a 2-million-ton rate before yearend, even the pricing situation became less painful.**

Autos enjoy present gains, 1962 outlook

Auto producers could delight in any of a number of things—two consecutive months of 600,000-plus production, improved sales of their 1962 models, or the rosy predictions for the new year.

The bolder forecasters, for some little time, have been saying sales of new cars in 1962 might run as high as 7-million (including 350,000 to 400,000 imports). **This week, no less an authority than General Motors' chairman Frederic Donner said "more than 7-million."**

Production of automobiles in December fell only a little below the plump November total of 646,000. That pushed the quarter comfortably above 1.8-million—though the year wound up at a relatively dismal 5½-million-plus.

A 1.8-million quarter is not, in itself, too remarkable. Several first or

second quarters have done as well or better and a couple of final quarters have topped this level. **The figure stands out, however, by contrast with the other quarters of 1961.**

Paper mills set new records, look still higher

There's good news for the paper and paperboard industry in the rising tide of consumer and business spending (on top of the fact that it can point to records for 1961). **What it portends is another banner year for domestic production and consumption of packaging materials.**

Industry experts estimate that 1961 hit 35½-million tons of all the output of this multi-product industry. That's a new peak, a million tons greater than in 1960.

This year's upturn in paper production accompanied the general economic recovery that began last spring, of course. **Yet it stemmed not only from increased demand; it also derived impetus from the need to replenish inventories that, by the end of June, had sunk to the lowest level in a decade.**

Paperboard production will swing on the level of consumer demand.

Long regarded as a reliable barometer of trade expectations—since it's the stuff of which boxes and shipping containers are made—paperboard just turned out the biggest fourth-quarter production in history, which carried the year's figure to a record as well.

One weak spot in the paperboard picture—construction paper and board—is expected to post some modest improvement next year.

Nevertheless, being largely dependent upon residential construction, this segment of the industry will have to wait on the next vigorous upturn in homebuilding for any real comeback.

Meanwhile, other types of paper are being consumed at a record pace.

Americans scribbled upon, burned, or otherwise used up 41-million tons of paper and board in 1961—about 437 lb. per capita. That just about matches the all-time per capita record set in 1959 (when consumption of building paper was considerably higher).

Turn in prices seems to be in the making

Consumers have just received the good news that the cost-of-living index declined slightly in November and probably went down a bit more in December. **But that doesn't mean prices are on the skids.**

It is true that 1961 will go down as a year of very moderate change in prices. It is also true that intense competition will continue, in 1962, to limit the extent of any rise.

Yet upward pressures have been visibly building in recent weeks.

Improvement in demand for steel scrap and some of the nonferrous metals began to push prices up about a month ago [BW Dec.2'61,p34].

The Bureau of Labor Statistics' index of primary metals, nevertheless, is no higher now than it was last spring when recovery had barely got under way. And the index for industrial raw materials generally stands just about where it did back in February.

Foods are down at retail, which has lowered the cost-of-living; yet there has been a recent rise at wholesale. And manufactured goods, at wholesale, are inching up after a year of slow but persistent erosion.

Last-minute shoppers jammed Fields Department Store in a New York suburb

Holiday hail of cash

A Christmas shopping season well ahead of last year's helped to salvage an otherwise laggard year for retail sales. Some cities report gains as high as 26%

"The sound of currency being unfolded was both beautiful and frequent," a Salt Lake City department store manager says of this month's Christmas sales.

His exhilarating experience was shared by most retailers all over the country, according to the findings of a Business Week survey of more than 150 stores in 23 cities this week. Christmas, 1961, was a clearcut record for the nation. For many stores, it turned out even brighter than their rosy pre-season expectations [BW Dec.2'61,p37].

By how much? In the week ended Dec. 16, national department store sales gained 9% over the comparable year-ago week, the Federal Reserve reported; at midweek, the estimate for the week ended Dec. 23 was not yet announced, but obviously it was going to be good.

In New York City alone, department store sales in the four weeks ended Dec. 23 averaged 7% above a year earlier. In Boston, a preliminary estimate put the season's gain at 10%. In Philadelphia, the final selling week alone accounted for a phenomenal gain of 26% for department stores, compared with the like week last year. In Los Angeles, this week ran 17% higher than a year ago, according to preliminary reports.

For retailing establishments over all, not just the department stores, the Commerce Dept. is sticking to its prediction of a 4% or 5% gain

for December over a year ago.

The tide turns. "The recovery has finally reached the retail level," several department store managers reported with glee. For retailers in general, that's the significance of the Christmas upswing.

All year long, retail sales have languished. Through the third quarter, they lagged 1% behind last year. Then in October they nudged upward, and November's $19.3-billion retail sales ran a solid 4.3% above the previous November. A 5% year-to-year gain in December would leave 1961 retail sales still a couple of hundred million dollars shy of last year's record $219.3-billion. But the momentum should carry over into 1962, setting up a new sales record for that year.

It's worth noting that business is holding up surprisingly well in the first week after Christmas. On Tuesday, the day after the holiday, the cry came from several parts of the country: "It still looks like Christmas."

I. Gains in all sizes

In New York, giant Macy's totted up slightly more than the 6% gain over last year that Pres. Arthur L. Manchee had predicted. Pres. Melvin E. Dawley of Lord & Taylor says the swank store's increase over last year was exactly three times that which he set in his goal before Christmas, though he declines to say what that goal was. Pres. Dominic Tampone of Hammacher Schlemmer reports an increase of 16% over last year, compared with his earlier estimate of 14%.

Chmn. Walter Hoving of Tiffany & Co., the plushy jewelry store, says, "Our seasonal sales were up 25% over last year and, if you take into account the one less shopping day, it means a day-to-day gain of close to 30%."

Aldens, Inc., Chicago mail-order house and discount chain, says seasonal sales, including November mail-order business, ran 20% above the year earlier. "This was better than expected," says Vice-Pres. Gordon R. Worley. Another large Chicago retail chain ran 10% ahead.

Local conditions. In some cities, retailers had to overcome adverse local conditions. In Atlanta, a couple of weeks of foul weather failed to stop Rich's, Inc., from showing a 10% improvement over last year. In Rochester, N. Y., B. Forman Co. showed an 8% gain for the season, though a bus strike put a blight on 15 of the 26 Christmas shopping days.

Chicago merchants don't feel they did so well as they could have. They grumble that repeated forecasts of inclement weather scared buyers out of shopping expeditions yet didn't come true until the last shopping day before Christmas. The weatherman dealt his lowest blow to retailers in Des Moines—an 11-in. snowfall. Downtown stores there report sales behind last Christmas, and suburban stores expect to come out no better than even, despite earlier hopes of 10% to 15% gains.

Gains for most stores in the country were more modest than for the ones in New York, Philadelphia, and other big winners.

II. Discounting

Sharp shopping made the discount houses happy. "We had an excellent season," says a spokesman for E. J. Korvette, Inc., which has 15 stores in the Northeast. Boston discounters reported gains of 5% to 10%. Silos Discount House in Philadelphia said the season's business was up 20%.

A similar report came from Chicago, where Arnold Schneider, general merchandise manager of Community Discount Centers, Inc., a chain of 14 stores, says: "We're running about 20% ahead of last year—far above expectations."

Despite such reports, major department stores seem to be complaining less about discounters than in most years. In Detroit, where merchants were bemoaning the discount competition a month ago, the feeling is now optimistic. Conventional stores went in for the heaviest promotion in years and met the discounters on prices in many fields. J. L. Hudson says its "pay no more" campaign paid off in sales volume.

In some areas, too, discounters are beginning to step on each other's toes. "There are too many discounters operating here now," a Syracuse discount house manager confided. "What with discounting by department stores, they are cutting in on our sales."

Toy price war. A price war on toys raged this Christmas between discounters and department stores, so fiercely that toys were probably the hottest line in retail sales this Christmas—and the most money-losing.

Macy's in New York met the discounters head-on with what it calls "aggressive pricing." Joseph Horne Co., a large Pittsburgh department store, invited shoppers to report any lower price found in town for an advertised toy and promised to meet it. A big San Francisco store sold the Robot Commando, listed at $22.98, at a net $11.88—well below the discounters' price.

Most department stores felt this use of loss leaders in toys was worthwhile. Pres. Harold Brockey of Rich's in Atlanta comments: "Toys brought little if any profits this year, but the toy department adds enthusiasm to the store, and we will never stop selling toys."

On the other hand, some discounters are beginning to wonder aloud if it's worth the struggle. They speak of declaring a truce next Christmas.

III. Catching up

The Christmas spree helps salvage a bad year for many retailers. Store after store reported that the good Christmas season simply means the difference between a big lag in sales and a tiny one; a few are crowing that their 1961 total sales will now show a slight gain.

Even retailers whose 1961 sales are down feel profits may be up. They have been running tighter operations all year. The Christmas splurge cleaned out their inventories of seasonal goods—in fact, some cautious retailers ran short. Most encouraging is the customer's new willingness to spend his money.

This tendency, noted in Business Week's post-Thanksgiving survey [BW Dec.2'61,p37], held true right up to closing time last Saturday. There are exceptions, as in semi-depressed Pittsburgh, where shoppers are still looking closely at price tags. But most merchants across the country agree with the Los Angeles store manager who says, "It was a luxury Christmas."

Storekeepers see a willingness to buy top-of-the-line goods and big-ticket items, both necessities and luxuries. They also see a trend toward splurging on things that aren't necessities; as Schneider of Community Discount Centers in Chicago describes it: "A work shirt might have been a Christmas gift in sluggish 1960; this year the same man probably got a sport shirt."

At another level, Chmn. Hoving of Tiffany's notes: "People are not just looking for practical things this year. They are spending more freely to get something of beauty." One free-spender plunked down $170,000 at Tiffany's for a string of pearls.

Shoppers at Hammacher Schlemmer, the New York gift shop, perhaps better illustrated the trend toward buying for "someone who has everything." Pres. Tampone reports 6,000 crossword puzzle boards sold at $10, thousands of electric pepper mills at $6, five dozen old Western Union stock tickers at $160 each, and more than a dozen hurdy-gurdies at $300 a copy.

Webb & Knapp's chief, William Zeckendorf, went overseas for rescue

Zeckendorf finds backing—at a price

Deal with British syndicate brings new cash to pay off an accumulation of high-rate loans. At the same time, Zeckendorf sacrifices some of his management liberty

William Zeckendorf (picture), the archetype of the New York real estate promoter, pulled off the supreme financial coup of his career last week [BW Dec.23'61,p90].

In one sweep, Zeckendorf brought more than $43-million in new capital to his Webb & Knapp, Inc., to pay off almost $40-million in loans on which W&K was paying interest charges of up to 20%.

It was a close thing. As recently as two weeks ago, seasoned real estate analysts on Wall Street were saying that "it couldn't be done." But Zeckendorf did it, and Webb & Knapp—which one banker who was involved in the financing says was "unbelievably close to the wall"—has gained a new lease on life.

Price of salvation. Zeckendorf paid a big price for his salvation. His rescuers—a syndicate of British financiers headed by the merchant banking house of Philip Hill, Higginson, Erlangers, Ltd.—demanded, and received, a half-interest in 13 of Webb & Knapp's prime urban redevelopment properties.

These properties include what someday may become Zeckendorf's crown jewel, the 380-odd acres of salt marsh in the Bronx on which Freedomland, a W&K-controlled amusement park, is situated. According to Zeckendorf, this land, which cost $5.9-million, should be worth $64-million when fully developed with apartment houses and other facilities.

Mechanics of deal. The formula applied in working out the deal is roughly equivalent to that applied in Webb & Knapp (Canada), Ltd., when the same Philip Hill group picked up a half-interest in the $90-million Place Ville Marie project in Montreal for an investment of $22.5-million [BW Oct.7'61,p106].

A new company, Zeckendorf Property Corp. (analogous to Trizec Corp., Ltd., in Canada) is being formed as a shell. ZPC will acquire, subject to "certain obligations"—which means most of the high-rate loans—the 13 Webb & Knapp properties in a swap of real estate for all of ZPC's Class A shares. The Philip Hill group is putting $12.5-million cash into ZPC, for all its Class B shares (about 50% of ZPC's total equity) plus $2.5-million for notes that mature in 1968.

The Class A stock of ZPC, which Webb & Knapp will hold, won't receive more than a nominal dividend for the next three years. The Class B shares, held by Hill, will pay a 60¢-per-share cumulative annual dividend, principally because the Bank of England, which had to clear Hill's participation, refused to allow export of capital from the U. K. without return flow of income.

Other angles. There are other facets to the plan:

- The Philip Hill group will put up another $6.25-million cash for 4.5-million authorized but yet unissued shares of W&K, plus an option (price undisclosed) on 270,000 shares in Gulf States Land & Industries, Inc., formerly Godchaux Sugars, Inc. BW May26'56,p34] and now a W&K subsidiary.
- Morgan Guaranty Trust Co. and the Bank of Nova Scotia together are lending $25-million to ZPC. According to insiders, the principal security for these loans is the earning power, real and potential, of the properties that are being transferred to ZPC. But they have the added security in that the Philip Hill group has guaranteed repayment of the loan.

Finally, as the capstone of the plan, Zeckendorf is bringing in a whole slew of new directors for Webb & Knapp. They include Aremus L. Gates, former Under Secretary of the Navy; and Lewis W. Douglas, former U. S. ambassador to Britain plus at least one more "independent" director who has yet to be named.

In addition, the Philip Hill group and its New York associate, Harriman Ripley & Co., Inc., will get sub-

stantial representation on the boards of both W&K and ZPC.

Second fiddle. Zeckendorf's nominees will be in the minority on the W&K board. This, in effect, is the biggest price Zeckendorf is paying. Over the next few years at least, he will have to subordinate his own flamboyant personality and restless imagination to the judgment of more conservative men—the Philip Hill group and the independents.

Time lag. It was Zeckendorf's refusal to take a slower, more conservative course that produced many of Webb & Knapp's problems. In the late 1950s he plunged into one massive urban redevelopment project after another. Each was, and is, regarded as completely sound in and of itself. What Zeckendorf failed to reckon on was the time and the money required to bring these projects to the point where they started to yield an income.

"Zeck was grossly overextended," is the comment from one veteran New York real estate developer.

Rather than abandon his plans, Zeckendorf took two courses: First, there were substantial liquidations of properties during 1960, including the "Big Hole" in Manhattan for his proposed Zeckendorf Hotel on Sixth Ave., which the Rockefellers and the Uris Bros. took over [BW Nov.19'60, p198]. Second, he borrowed from anyone with money to lend and, in the process, built a burdensome portfolio of high-rate loans.

Zeckendorf's comment on this is simply, "I'd rather be alive at 18% than dead at the prime rate."

But W&K could not endure these high-rate charges indefinitely. Zeckendorf realized that he would have to get out of the bind by making some deal to pay off the hordes of money lenders who had kept him from going under. This is what he accomplished last week. Though he must take heed of his new associates, he has more flexibility than he had when he was in debt up to his ears.

Market ..proves. The stock market appeared to agree that Zeckendorf had pulled off a miracle. Last week, W&K traded at 2¼, with heavy buying coming from Bear, Stearns & Co., a Wall Street house with a penchant for the asset play. W&K's low for the year was $1.

Indeed, there's a growing band of speculators who believe Zeckendorf's claim that, in relatively short order, W&K will be in a position to call its preferred stock—on which there are approximately $45 in dividends in arrears—and start paying dividends on W&K's 32-million common shares.

Color for executives: The blush is red

The Executive Coloring Book—20 pages of cartoons with instructions for coloring—uses kindergarten language to poke fun at businessmen

These young executives (below) are coloring a coloring book. The name of the book is The Executive Coloring Book. They are coloring it green. Green is for money.

The zany trio who write—and sometimes talk—like five-year-olds are Chicago advertising agency copywriters who created one of this holiday season's best-selling impulse items. The Executive Coloring Book, found under the Christmas trees of many an executive and would-be executive this week, was the idea of Dennis Altman, 29, Marcie Hans, and Martin Cohen, 28, who was hospitalized last week with nervous exhaustion.

The trio got the idea last August for a 20-page coloring book poking fun at businessmen. They invested $300 each, persuaded several Chicago bookstores to give the book a try, and sent others on consignment to bookstores listed in the yellow pages of city directories.

Best seller. A first printing of 1,600 sold out in three days in mid-November. The book was promoted by local disc jockeys and national publicity—Jack Paar and Today television shows—and is now in its fourth printing.

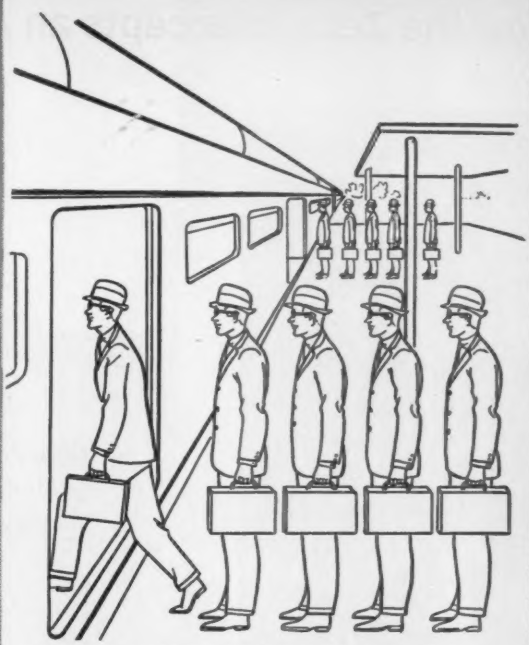
Cohen and Miss Hans, who work for North Advertising, Inc., and Altman, formerly with North and now with Edward H. Weiss & Co. advertising agency, say that about 42,000 books have been sold, and a fifth printing is likely.

The coloring book, bound in maroon imitation leather, retails at $2.98. It costs less than 50¢ to produce and is sold to bookstores for $1.50 per copy, $1.15 for an order of more than 500.

Altman says other products are on the drawing board of Funny Products Co., set up to handle the coloring book. He won't specify what they are, but says that, like The Executive Coloring Book, they will have sociological as well as entertainment importance.

Authors Dennis Altman (left), Marcie Hans, and Martin Cohen color cartoons in The Executive Coloring Book—a best seller that's headed for its fifth printing.

THIS IS ME. I am an executive. Executives are important. They go to important offices and do important things. Color my underwear important.



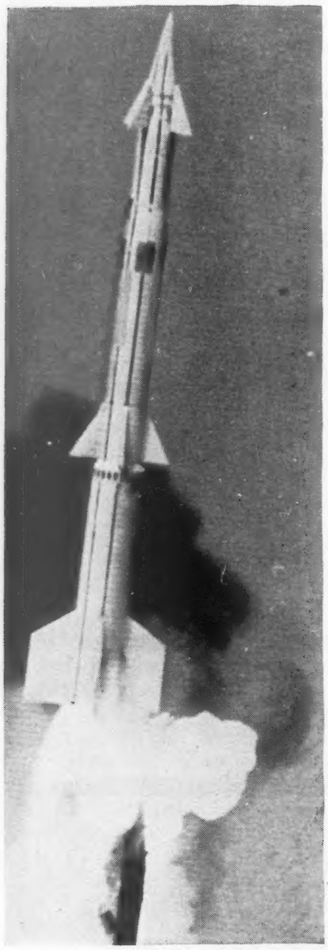
THIS IS MY TRAIN. It takes me to my office every day. You meet lots of interesting people on the train. Color them all gray.

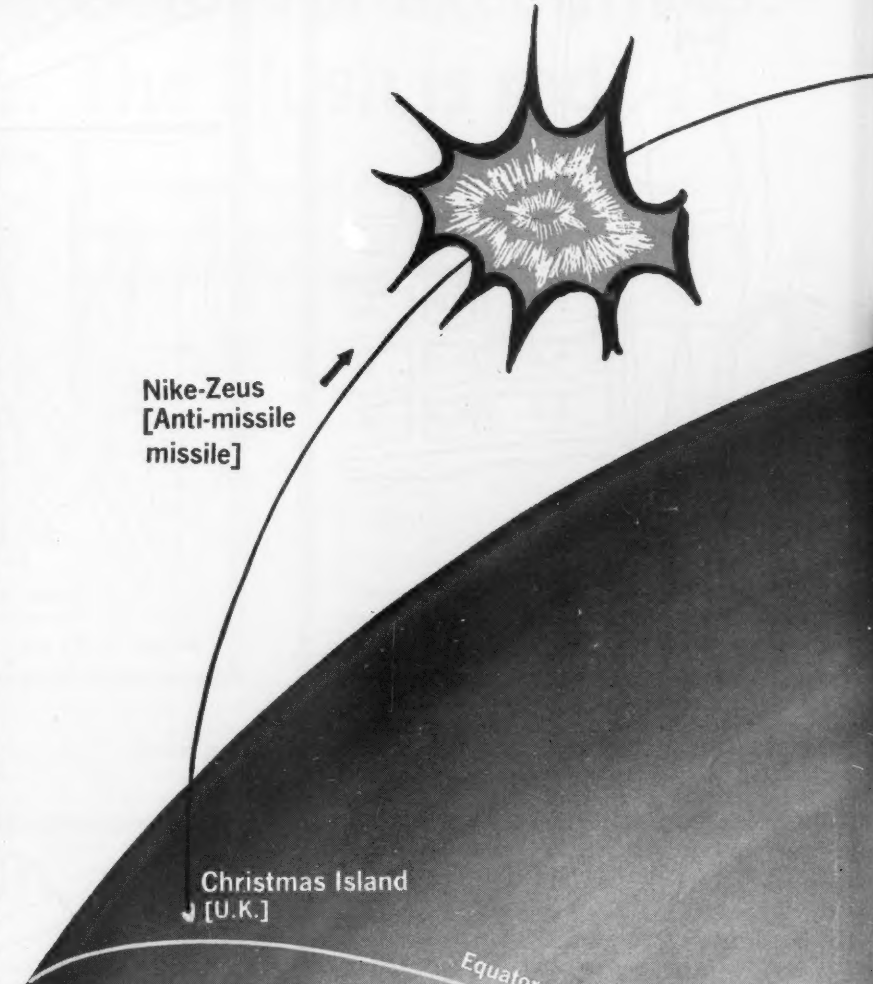
These are pages. They are from The Executive Coloring Book

THIS IS A CUSTOMER. He smells bad. He has money to spend. I like him.

THIS IS MY MINK COAT. I take it to my club. I take it to banquets. It goes lots of places with me. My wife comes, too.

How the Zeus intercepts an Atlas





New year to see atmospheric tests

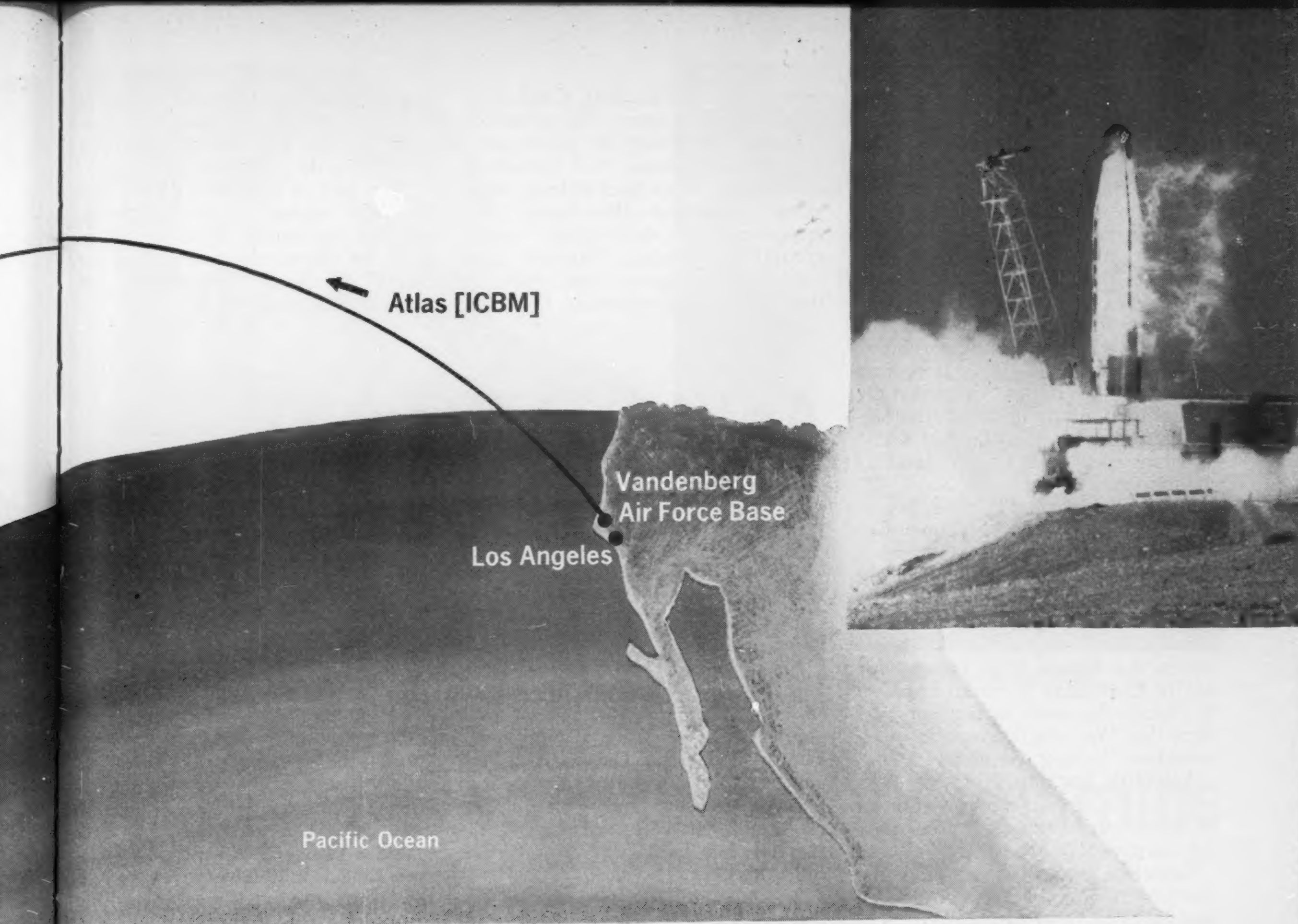
Necessity for a real test of U. S.' only anti-missile missile, plus Russian nuclear progress, is expected to spur Kennedy announcement of decision to resume atmospheric shots

Early in 1962, Pres. Kennedy is expected to announce that the U.S. will resume atmospheric testing of nuclear weapons in March or April. A new Pacific test area is already under strong consideration (sketch above). Kennedy will cite two basic reasons—both military—for his decision:

- Scientific analysis of the recent Russian nuclear tests indicates that the Soviet Union has made "significant progress" in the development of nuclear bombs.
- Development of our own Nike-Zeus anti-missile missile has now reached the point where live testing has become a necessity.

Eye to eye. Kennedy's decision was discussed in detail with Britain's Prime Minister Harold Macmillan when the two met in Bermuda last week. Macmillan, accompanied by top British atomic scientists, apparently was already aware of the fact that the U.S. would have to resume atmospheric testing as soon as possible. His attitude, say insiders, was friendly and cooperative.

Some of the tests will probably be



conducted from Christmas Island, a British-owned atoll in the Pacific. When the subject of possible U. S. use of Christmas was broached, Macmillan acceded to its political desirability. Kwajalein (in the Marshall Islands) could be adapted for such purposes more easily and quickly. But Kwajalein is a U. N. trust territory, administered by the U. S., and fears are that its use now would raise what one AEC official calls "an emotional rumpus."

The last time (late in 1958) that the U. S. conducted nuclear tests from Kwajalein, a delegation of Marshall Islanders complained bitterly to the U. S. The Japanese government joined in the protest—on the ground that radiation fallout produced in the tests was falling on Japan and her fishing fleets.

Test site. It's likely that Christmas will be used as the launch point for Zeus, and Point Magu, just south of Vandenberg Air Force Base in California, will be the launch point for an advanced Atlas ICBM, which the Zeus will try to intercept. This arrangement would give an almost perfect test range, according to the Army. A strong point in its favor is that the interception area (see sketch above) would be over a virtually uninhabited part of the Pacific Ocean.

If Christmas is used rather than Kwajalein, scientists say that a new prototype Zeus missile-radar installation will have to be built on the island. This might not only cost more but could also delay live tests for months. But, over the long run, the move might be well worth the additional cost and effort.

Kwajalein, which was chosen earlier for non-nuclear testing of Nike-Zeus, already has some of the necessary equipment for live tests. It would take only six weeks to install the additional instrumentation required.

But politically, Kennedy might—by using Kwajalein—be heading into rough water. For this reason, Washington is saying, the U. S. will soon formally ask the British for use of Christmas. In exchange, the U. S. will offer underground nuclear testing facilities for use by the British and also joint atmospheric tests at Christmas within the limits imposed by the Atomic Energy Act.

Progress. Preliminary testing of the Nike-Zeus has been moving ahead. Last week alone, the missile scored three times out of three firings. One Zeus successfully intercepted a Nike Hercules target over White Sands, N. Mex.; a second made a perfect launch from a prototype site on Kwajalein; and a third fired from Point Magu, Calif., completed the longest and highest flight that the solid interceptor has ever made.

Development men are openly excited about this performance. They say it proves the reliability of the rocket system and its support equipment. What will never be proved from such tests, however, is whether Zeus can really serve as a defensive weapon against an oncoming ICBM warhead.

When the order was first given to prepare Kwajalein for Nike-Zeus testing, the U. S. self-imposed moratorium on nuclear testing was still in effect. This meant that the Army was forced to substitute electronic devices to decide whether an interceptor would have destroyed an ICBM had they both been equipped with nuclear warheads. Similarly, it had to gauge electronically whether fallout from the interception would have endangered the area being defended.

Live testing. Theoretically, such

electronic scorekeeping looked fine. But as far as the military is concerned, it was a poor substitute for the real thing. Rather than depend on this limited type of testing, the Army has in recent weeks been pressing hard for live nuclear tests.

The Army's argument runs like this. Zeus is the only anti-missile missile the U. S. has. Barring some change in the cold war situation, the defense of the U. S. could well hinge on Zeus by the mid-1960s. If it won't work as an ICBM defense, the sooner the military finds out, the better. If it does work, the fact could substantially boost U. S. military prestige and power.

British scientists, like their American counterparts, are concerned about what U. S. failure to resume atmospheric testing might mean. Their concern, it's said, was what persuaded Macmillan not only to risk political opposition at home (when the formal U. S. request for use of Christmas is made) but also to change his own earlier personal view that Western resumption of atmospheric testing would be unwise.

Scientific backing. Kennedy consulted with a broad cross-section of U. S. nuclear scientists before making his appeal to Macmillan.

Scientific consensus is that while the Soviets probably have not scored any major advances in nuclear technology recently, they are making progress steadily in a broad, apparently well-coordinated research program. Fallout in the recent Soviet series was unexpectedly light [BW Nov.11'61,p31]. After weeks of study, U. S. scientists decided this probably means Russian scientists have been working on the development of a more powerful nuclear warhead, with a smaller "fission" trigger for a larger (fusion) mass.

Another possible explanation of the light fallout is that the Soviets were testing their own anti-missile devices. (Anti-missile missiles have little fission materials because they may have to be used over a nation's own land mass.)

Detection underground. While the U. S. scientific community awaits official word of the results of the Kennedy-Macmillan discussions on atmospheric testing, it is also concentrating on a related problem. Now that all reports are in, it's clear that the recent underground Gnome shot, set off near Carlsbad, N. Mex., last month, has upset some basic theories about detection of underground nuclear blasts [BW Dec.16'61,p68].

Earth tremors of the 5-kiloton shot were recorded as far away as Sweden and Japan. Yet they weren't even picked up faintly by seismographic instruments in Pasadena, Calif., less than 1,000 miles away. This promises to further complicate the whole problem of underground test detection.

"Gnome sets us back at least three years," admits one atom expert. The importance of developing underground test monitors, however, may soon become more of an academic than a practical question. From its last score of underground firings in Nevada (set off in the past two months) AEC has derived relatively little valuable information.

"Our lack of good test data," says one AEC spokeman, "is discouraging. But it's strong additional argument for those who are calling for immediate U. S. resumption of atmospheric tests."

Antitrust fires a broadside at GE

Justice Dept., citing actions back to 1911, wants to order company not to fix prices on anything, just in case; but GE wins one point in electrical equipment suits

The Justice Dept. last week asked another special penalty for General Electric Co. One reason for the latest attack, says the government, is that GE has had so much antitrust difficulty over the years.

The Justice Dept. went to federal court in Philadelphia and demanded that GE be ordered not to fix prices or rig bids on any of its products—not just the heavy electric equipment covered in the Philadelphia antitrust suits. The effect would be to make GE and its top officials liable for contempt of court as well as for all other penalties if it ever again was involved in price-fixing.

GE's reaction was quick and vigorous. Laurence I. Wood, vice-president and general counsel, described the government's move as "unfair, unreasonable, and unnecessary." It seeks, he said, "to prevent the company from doing what it has no intention of doing."

Wood said GE would defend itself against the government demands—indicating the company will go to trial. If this happens, it will be the first time the electrical price-fixing cases will have a full-blown courtroom hearing.

Partial victory. In a sense, though, the amended complaint is a partial victory for GE. Although negotiations have been stalled since midsummer, GE and government lawyers have been trying to work out terms of a consent decree that would terminate the civil price-fixing cases.

GE balked at a clause in the proposed decree that would have made it illegal for the company to charge "unreasonably low prices" for its products when there was a "reasonable probability" that competition would be damaged. GE also protested a clause in the proposed decree that would have given to GE the job of proving it was not selling at unreasonably low prices.

None of this language is in the complaint filed in Philadelphia. The government initially had proposed it at the insistence of some smaller companies in the industry. But these companies failed to produce any evidence that GE is taking part in any predatory pricing. So, the Justice Dept. decided to drop the language.

Going back. One important aim of the Justice Dept. in filing the amended complaint is to consolidate all 18 pending civil cases in Philadelphia into one. This, federal antitrust attorneys believe, would make it easier to try the cases.

It is clear, also, that Justice Dept. officials feel GE is prone to antitrust violations and believe this justifies a broad order against the company. Much of the 14-page complaint is taken up with a recitation of GE's antitrust difficulties, citing 39 separate actions dating back to 1911.

This, GE's Wood retorted, is an effort by Justice to "rake over cases long since a closed chapter."

Status. The complaint was attached to the civil antitrust case charging price-fixing in switchgear.

The government's demands in the new complaint would require GE to withdraw its price lists on heavy equipment and reissue them after "independent review."

Chmn. Frank Pace, Jr.'s star is fading

Henry Crown seeks to remake the company

Tremor at top in General Dynamics

Red ink and huge write-offs for jet losses presage end of Frank Pace, Jr.'s rule; Henry Crown's moves could bring in new strong man to clamp down on divisions

When Frank Pace, Jr. (above, left), accepted the invitation of the late John Jay Hopkins to help run the fast-growing defense complex called General Dynamics Corp., many people wondered why. Believed politically ambitious, Pace was a successful Washington bureaucrat, and had been Director of the Budget and Secretary of the Army under Pres. Truman.

In explanation of his acceptance, Pace was quoted as saying: "I had tested myself against the great problems of government; now I wanted the testing ground of business, where the sharp cutting edges of profit and loss evaluate your performance."

Final exams. That was in 1953. It soon became evident that Pace had picked a formidable testing ground. With no previous experience in industry, he had to deal with a complex of autonomous divisions—almost independent fiefdoms—set up by Hopkins, a tough task for even the most experienced business manager. And he had to stay ahead of the swift changes that strike the aircraft and defense industries.

As 1961 ended this week, it was obvious that Pace—chairman of General Dynamics since 1957—had failed in the profit-and-loss test he himself had posed. Though General Dynamics' planes, missiles, nuclear submarines, electronic gear, and other products had pushed sales to the $2-billion mark, over-all profits declined, and in the last two fiscal years disappeared completely.

Most telling, though, were the huge write-offs stemming from General Dynamics' venture in its 880 and 990 commercial jet transports [BW Aug.12'61,p28]. Up to June 30 this year, nearly $375-million had been written off, with more sure to come, probably until the first quarter of 1962.

Price. What price will Pace have to pay for flunking the profit-and-loss test? For weeks the consensus has been—his job. This feeling prevails everywhere—within the company, in Wall Street, in board rooms, in Washington.

General Dynamics' chief money lenders—the Chase Manhattan Bank and the Prudential Insurance Co. of America—will say nothing in public, but privately say Pace's ouster is inevitable. At General Dynamics' New York headquarters, an unhappy Pace partisan concedes, "it's only a matter of time."

Shadow. At least one reason for the unanimity is the long shadow thrown by Col. Henry Crown (above, right), a director, chairman of General Dynamics' executive committee, and its largest individual stockholder. A Chicago industrialist, Crown merged his profitable Materials Service Corp. (coal, building materials, lime) with General Dynamics just two years ago.

General Dynamics issued 2,064,516 shares of a convertible preference stock in exchange for Materials Service common shares. The preference stock was made convertible into common at $55, and it was agreed no dividends would be paid on it between 1959 and 1963.

Holders of the stock also got the

right, voting as a class, to elect three-fifteenths of the General Dynamics directors, so long as 1,376,344 shares were outstanding. General Dynamics last June passed up an option to redeem 800,000 of the shares at $67 and thus reduce the number of directors the holders could elect. As a forfeit, General Dynamics had to buy 400,000 shares at $66, without reducing the voting power of the preference shares.

Another thing that makes Crown so potent is that the merger agreement gives him the right to vote his preference stock as common if the company fails for two years in a row to earn $8 a share before taxes, not counting the tax write-offs. Crown may be able to exercise this right by the end of 1962. With only 9.9-million common shares outstanding, his 2-million shares would amount to working control.

Remaking. Crown denies he is any sort of hatchet man. Rather he is a man intent on protecting his investment. Failure of the commercial jet program has caused General Dynamics to omit the dividend on its common stock, and has depressed the common's price to $27 from a 1959 high of $65.

In New York last week, Crown said pointedly: "The conversion feature of the preference stock, which is convertible at $55, has little or no value—now."

Crown is determined to remake the company, eliminating the autonomy of the divisions, which in one or two cases assumed prerogatives never assigned to them and ended by ignoring or fighting directives from headquarters. His over-all plan is to centralize. Plainly, what one insider described as the "holding company" as it was shaped by Hopkins is about to disappear.

Crown and Pace. Crown hedges on whether Pace and Pres. Earl D. Johnson will be gone, too. He sympathizes with Pace, points out that Pace came in without any industrial administrative experience to face a maze of divisions that could only produce "horrendous problems."

"The staff in the New York office had neither the knowledge nor the capability of dealing with this unorthodox setup inherited from Hopkins," Crown adds.

It would be an unlikely move for Crown to try to oust Pace summarily. Pace is liked and admired, especially in Washington, the source of defense contracts. Crown, a wily trader who bought the Empire State Building and sold it at a $30-million profit [BW Sep.2'61,p69] is too shrewd to seek such a solution.

To the question of what he intends to do about headquarters management, Crown replies, "Strengthen it." He doesn't deny that could mean the addition of a strong man. One rumor already mentions Roger Lewis, an executive vice-president of Pan American World Airways, Inc.

Wrestling. A "strong man," eclipsing Pace, would have to wrestle with the divisions to get them to obey headquarters, as Pace tried to do.

Ever since he took over, Pace has sought more commercial business to balance the uncertainties of defense business. General Dynamics' commercial jet venture was its biggest bet on commercial diversification. The trouble was that the Convair Div.—so large it produced about 75% of General Dynamics' profits and nearly all the management infighting—opposed the move.

J. V. Naish, head of the Convair Div. until early this year, says he was against the commercial jet program, and the decision was born at corporate headquarters. A spokesman in New York agrees it was a fight over authority between Convair management and corporate management, and corporate management won.

Crown defends the decision, saying, "No one likes the ups and downs of defense contracts." With Convair's long experience in commercial plane building—with its twin-engine 240, 340, and 440 planes of 15 years ago—it was only natural to go into it again, he says. He regards it as "unfortunate" that Boeing Co. got a big jump on Convair with its jet tanker experience.

Optimist. Right now, General Dynamics faces one of the "downs" of defense contracts. The B-58 jet bomber is phasing out, and fewer Atlas missiles will be needed. Some estimates put future sales $500-million or more a year below the current $2-billion rate. General Dynamics also lost out on contracts for Apollo—the biggest U. S. space effort—and the Saturn booster.

Yet, despite such sags and management turmoil, Crown still expects "a substantial over-all profit next year." "Our problems are mostly behind us," he claims, and in 1962 "we will do nothing but consolidate our efficiency."

Crown's own biggest problem, though—finding a management man to clean up and start over—is still ahead of him. Currently, the executive committee is steering the company through day-to-day operations; but so far it hasn't found a man to implement the policies Crown talks about. There's no doubt a search is on—in fact, it's being demanded by General Dynamics' financial advisers. But no one seems yet to have the nod—at least publicly or from Henry Crown.

Unhappy new year for truckers

They face new interstate tax hurdles in Connecticut's fuel buying requirement and moves by Iowa and Illinois

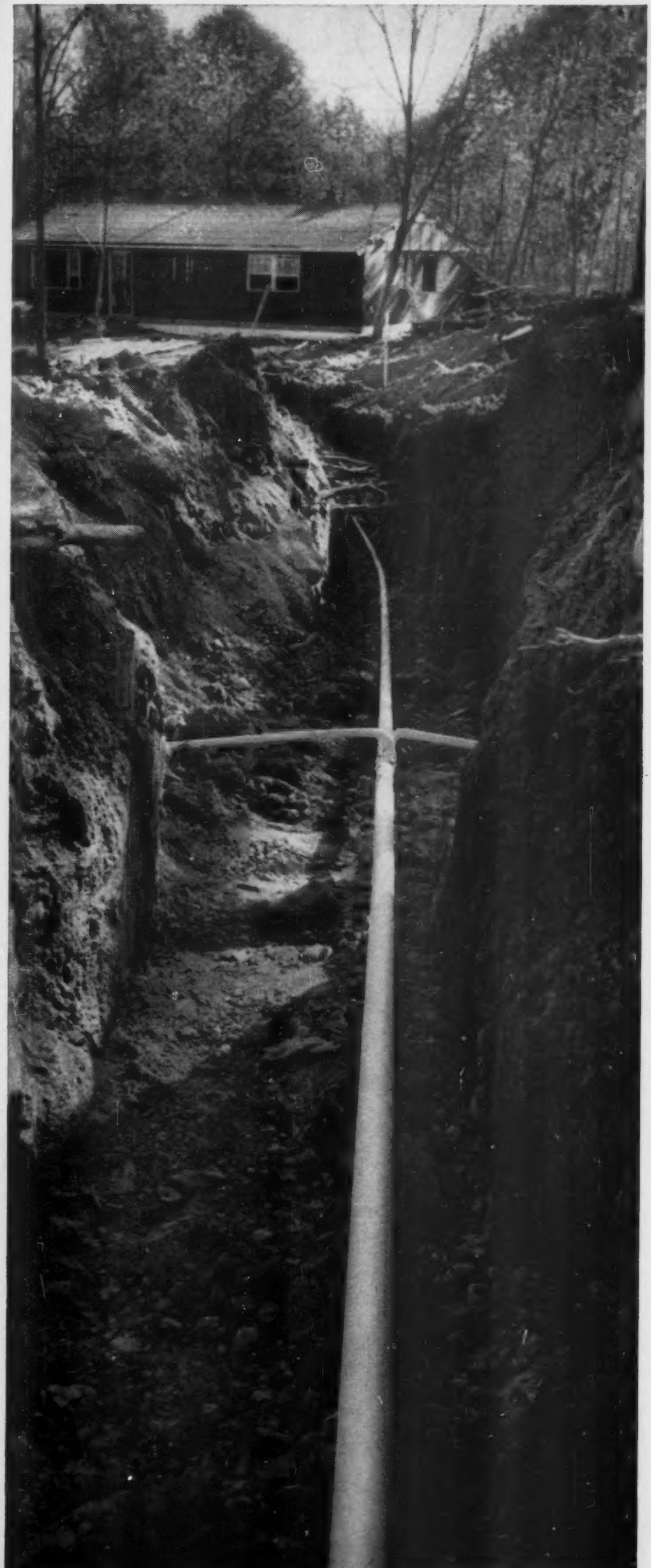
The new year is bringing some bad tax news to interstate truckers, who for years have been urging reciprocity in state tax treatment of interstate trucks—that is, exemption of "foreign" trucks from taxation in one state to the extent that the state's trucks are exempted in other states. On Jan. 1:

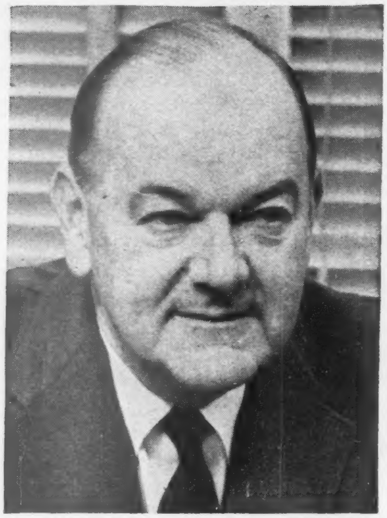
- Connecticut is requiring, in effect, that out-of-state trucks buy in that state as much fuel as they use within its borders.
- Iowa and Illinois are withdrawing reciprocity from New York and Ohio, both of which impose a so-called "third-structure" tax. This type of tax is an axle-mile levy, as in Ohio, or a weight-distance tax, as in New York. These taxes are based on the number of miles a truck travels, graduated according to either the number of its axles or its weight.

In addition, Indiana is threatening to impose an axle-mile levy on Ohio truckers, starting Mar. 1.

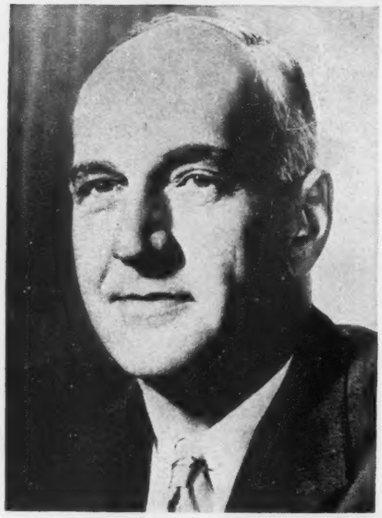
Double jeopardy. In the case of Connecticut's fuel tax, it's not the amount of the tax but the possibility of double taxation that is drawing trucker complaints. Connecticut is such a small state that trucks can traverse it without refueling. Under the new scheme, if they don't refuel they will have to pay the equivalent of the tax Connecticut would have collected if they did. This could lead to paying the tax both to Connecticut and to the state where the fuel was purchased.

Harry Boot, state tax specialist of the American Trucking Assn., argues that the latest developments are a blow to interstate commerce.





C. R. Smith's American Airlines spans country from Northeast to Southwest.



Malcolm A. MacIntyre's Eastern Air Lines blankets East and Middle West.

Biggest merger talks give airlines a start

Exploratory talks by American and Eastern, if followed through, would create nation's largest airline by far, set off defensive merger scramble by other lines

The airline industry was jolted this week by word that preliminary, exploratory merger talks have been held between American Airlines and Eastern Air Lines, the country's second and fourth largest carriers.

The first reaction was summed up by an officer of another line: "That would sure create quite an airline."

A combination of American and Eastern would result in a single carrier serving most of the country's major cities except in the Plains States and in the Northwest. American is a coast-to-coast line connecting the industrial Northeast and Midwest with the Southwest and California. Eastern is the dominant north-south airline blanketing the East and Midwest.

Together they would be the nation's largest airline by far in terms of assets, gross revenues, and passenger miles. They would have a giant fleet of jets and prop jets, the bulk of which could be put on American's present routes in summer when these are at their peak, and on Eastern's present routes in winter during Eastern's busy season.

Competitive stimulant. While this potential merger would lessen the number of airlines, it would decidedly not lessen competition. In fact, it would intensify it.

Today, American and Eastern fight each other bitterly for every passenger along the Eastern Seaboard from Boston to Washington and points in between. They also compete between New York and St. Louis. Otherwise, their routes are essentially noncompetitive.

Thus, a merger would not eliminate very much duplication. But it could make life more difficult for everyone else.

In 1960, American had a net income, including special credits, of \$11.8-million on revenues of \$428.5-million. For the first nine months of 1961, which has been characterized as the worst in the industry's history, it earned \$4.2-million on revenues of \$311.7-million.

Eastern's troubles. Though Eastern has fallen on evil times lately, its troubles are almost certainly temporary. It had a net loss, after special credits, of \$3.6-million in 1960, on revenues of \$293.8-million. For the first nine months of 1961 it had a net loss, after special credits, of \$5-million on operating revenues of \$220.7-million.

There is, however, nothing fundamentally the matter with Eastern that tighter management and a few more passengers can't cure. Already the company has gained in passengers and passenger miles. Its new president, Malcolm A. MacIntyre [BW Nov.4'61,p90], is confident the corner will be turned in 1962.

Scramble. If American and Eastern do continue their talks to the point where they can submit a definite proposal to stockholders, creditors, and most important, the Civil Aeronautics Board, enough time will probably have elapsed for Eastern to have returned solidly to its profitable ways. That would confront the remaining airlines with a proposed combination of two profitable carriers with great resources. This would set off a scramble by the others for defensive alignments.

Silent. Whether or not the coming year will be marked by hasty scurrying by airlines depends to a large extent on how serious the American-Eastern talks are.

Neither MacIntyre nor C. R. Smith, president of American, would discuss the merger rumors. Smith was on vacation fishing, according to his office. "That should give you an idea how urgent he considers any merger talks," remarked an American officer.

MacIntyre issued a statement to Eastern employees, calling on them not to be sidetracked by reports of merger talks. In his statement MacIntyre pointed out that the industry will probably lose \$30-million in 1961, and that one of the solutions to airline problems is mergers.

CAB views. Mergers have also been called for by CAB Chmn. Alan S. Boyd, though whether he had in mind one such as American and Eastern is doubtful. Concerning their talks, he said this week he knew only "what I have read in the press," that "nothing has been filed formally with the board, nor have we been told anything informally." CAB, he said, had, of course, no advance comment on a possible merger proposal.

A staff member pointed out that the CAB has a long-standing policy of trying to strengthen the smaller trunks and close the gap between them and the so-called Big Four. In this light an American-Eastern merger might have rough sledding, as going against this policy.

In business

Three New Jersey banks accused of plotting to keep their service charges identical

The Justice Dept. this week moved to extend its control over the bank industry when it accused three New Jersey banks of conspiring to keep service charges artificially high.

If the antitrusters win the case it could have serious implications for the entire banking industry because interest rates and other charges are usually uniform in any given trading area. Thus, most major New York City banks charge identical rates on installment loans and the same fees on special checking accounts.

The antitrusters' case is based not on the sameness of the charges, but on the alleged conspiratorial action to keep fees uniform. It said that as early as 1957, the banks, by phone calls and personal meetings, had agreed to fix charges on checks, checking accounts, drafts, and other services. As a result, Justice said, competition had been restrained in violation of the Sherman Act.

The three banks are: First National Bank of Clinton, the Clinton National Bank, and the Hunterdon County Trust Co., also of Clinton. They have 20 days in which to answer the charges.

Brookings far-ranging tax study gets $1.6-million infusion from Ford

The Brookings Institution's massive study of the U. S. tax and fiscal structure got a $1.6-million shot in the arm last week from the Ford Foundation. That brought the total of Ford Foundation money in the study to $2.4-million, making it one of the richest-ever private economic inquiries.

The Brookings study, directed by Joseph A. Pechman, seeks firm answers to tax and fiscal questions, where most earlier efforts have sought only background information [BW Nov.5'60,p151].

Pru's 'prestige' development in Boston finds it's part of a building boom

Six years ago, when Prudential Insurance Co. of America dreamed up its $100-million Prudential Center development in Boston's Back Bay, prestige was a top consideration. But last week, when Pru finally shook free from the last snarl of red tape, it found a bonus of more mundane advantage: Boston was in the midst of a real estate boom.

Substantial housing and office construction is popping up in the city that for years had seen very little building, what with the ultra-heavy real estate tax and a considerable vacancy rate. Just recently, smart money people have noticed that land in Boston could be picked up more cheaply than in any other major city. Also, they are betting that the **space age industries that ring the city will soon be seeking downtown headquarters.** So, as Pru starts pushing construction, it will have plenty of company. Top entries include a $20-million, 27-story office building backed by a British combine, and—announced just this week—a 25-story office and apartment building that will overlook Boston Common.

FTC rejects drug makers plea to bar own chairman from price hearing

The Federal Trade Commission last week rejected the motion of five drug companies that FTC Chmn. Paul Rand Dixon be disqualified from considering a price fixing complaint against the companies. The five argued that **Dixon was prejudiced against the industry because of his former job as staff director of the Senate Antitrust & Monopoly subcommittee** during the long investigation of drug prices.

Dixon has not yet made up his mind whether to disqualify himself, but the guessing is that he will decide to sit when the case is heard. An FTC examiner has found no illegal activities by the drug makers, but the full commission will review this decision in a few months.

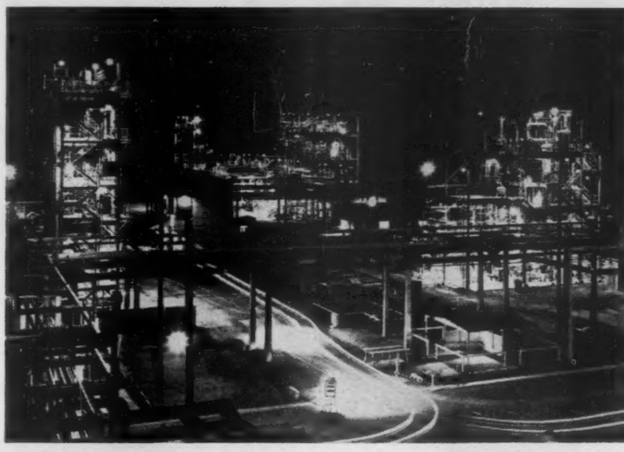
In business briefs

Sometime in 1963, **International Business Machines will move its headquarters in New York City,** with 1,000 employees, to a building now being constructed in an apple orchard in suburban Armonk. Embittered resistance by local residents caused IBM to abandon earlier plans for a headquarters site in Harrison, another swank Westchester community. Top management, with a vanguard of 200 employees, has been testing rural working conditions at the company's Yorktown laboratory since early last fall.

Atlantic Refining Co. has boosted its domestic production facilities 14% by its **$135.5-million purchase of the oil and gas facilities of Denver's Argo Oil Corp.** Financing of the deal was $29.5-million in cash, the rest in securities to be paid off in an estimated 10 years by Argo facilities now in production. New wells brought in on Argo property, more than 900,000 acres in the South, West, and Alaska, will not be committed to the securities.

Greyhound Corp., of Chicago, is rejiggering its top management as of Feb. 1. **Melvin C. Frailey,** now running Western Greyhound Lines, will take over as president and chief executive officer of Greyhound Corp. He succeeds **Frederick W. Ackerman,** who will continue as chairman and chief administrative officer, with primary responsibility for Greyhound's diversification program.

CHEMSTRAND compared costs, labor, services, housing—chose Coleraine, NORTHERN IRELAND for its $10,000,000 Acrilan plant



DU PONT explored 19 sites—chose NORTHERN IRELAND for world's newest neoprene plant; already expanded 20%

Northern Ireland (U. K.) attracts steady flow of U. S. plants

Availability of good labor, favorable economic climate, opportunities for profitable sales around the world are given as reasons

Hardly a week goes by now without one or more teams of U. S. executives making the trip to Belfast, Northern Ireland, to consider plant location there.

Obvious reasons for this accelerating trend are easy to find: the extremely favorable experience of U. S. companies already in Northern Ireland who report highly profitable sales to many parts of the world; the wholehearted cooperation of the people of Northern Ireland from the Ministry of Commerce to the man behind the machine; the natural and man-made incentives which constitute Northern Ireland's favorable economic climate; and, of course, the all-important supply of labor, Europe's most scarce and most closely guarded raw material.

U. S. companies already in operation have invested over $60 million in recent years, include leading names of U. S. industry such as Du Pont (about to add an isocyanates plant to their existing neoprene facility), Chemstrand (greatly stepping up production of Acrilan fiber), Bridgeport Brass, Hughes Tool, the Norton group, Oneida, Berkshire Knitting. Products made by U. S. companies in Northern Ireland include nylon hosiery and optical lenses, oil well drill bits and industrial abrasives, flatware and valves. Markets served include Britain itself (Northern Ireland is part of the U. K.), the British Commonwealth, Western Europe, and export markets around the world. Belfast, one of Britain's leading ports, is an outlet for this world-wide selling.

Ample labor available is a major attraction. Northern Ireland, with a population of under 1½ millions, has a labor surplus of some 35,000. In the whole of West Germany, with 56 million people, under 100,000 are available. Moreover, industry established in Northern Ireland pays tribute to the quality of the labor available, and to the Government labor-training schemes.

The economic climate is favorable. As a part of Britain, Northern Ireland offers a chance to develop inside a balanced, stable, highly industrialized society. The same language is spoken, the same measuring system used in Belfast as in New York. Over $3.2 billion of U. S. investment is concentrated in the U. K., and 68 of the leading 100 U. S. companies have operations there.

Ministry of Commerce cooperates with new industries at every level. Its representatives in the U. S. stationed in New York, will travel anywhere, any time to talk with industrialists who are reviewing overseas locations. They will answer all questions—on costs, services, markets, Government aid. In London, representatives of the Northern Ireland Government help with introductions to British Government agencies, trade associations, etc. And in Northern Ireland itself a special team of energetic officials is ready to show the executive factories and available sites, introduce him to fellow Americans already in Northern Ireland, and assist with corporate and personal problems.

Stop press news of U. S. investment in Northern Ireland includes a decision by International Telephone & Telegraph's British subsidiary to locate in Northern Ireland a major facility employing 2,000 people, and by A. G. Spalding to move its British production of sporting goods to Northern Ireland.

To contact Northern Ireland in New York is easy. Write to Kenneth P. Bloomfield or William McC. Taylor at the British Industrial Development Office, 405 Lexington Avenue, New York 17. Or phone MUrray Hill 2-6820.

Washington outlook BW

December 30, 1961

The far right gives zest to 1962 politics

Congress convenes in a little over a week—opening what will be **an unusually lively and significant year in politics.**

Usually it takes a Presidential campaign to bring politics to the boiling point.

But elections next year for every House seat, 37 Senate seats, and for governors in 36 states are going to be charged with special significance.

1962 is the year of testing for the new and energetic organizations of the far right that made headlines in 1961.

A "topic" among professional politicians in both parties is whether such groups as the Christian Crusade, the National Indignation Committee, and the John Birch Society have the power to stir up voters in substantial numbers.

The answer should come during the new year—possibly as early as the spring primaries.

First target will be the spring primaries

If the extreme conservatives, working through the two regular parties, manage to nominate a significant number of candidates in the primaries, the professionals will have to acknowledge they have real power.

A trend of this kind is most likely in Texas, where the far-right groups are challenging the regular Democratic organization, and in California, where their target is the GOP.

Ultra-conservatives have already won control of the Young Republicans of Southern California. This group hopes that Rep. John Rousselot, a member of the John Birch Society, will oppose Sen. Thomas Kuchel, a liberal, in the Republican primary for senator. A Rousselot-Kuchel contest would provide a clear-cut test of far-right vote power.

Joseph Shell, GOP leader in the California legislature and an ultra-conservative, is seeking the Republican nomination for governor against Richard M. Nixon and former Gov. Goodwin Knight.

In Michigan, the ultra-conservatives will try to keep George W. Romney, president of American Motors Corp., from getting the Republican nomination for governor. Romney has not announced his candidacy, but has been acting much like a potential office seeker.

Goldwater a key factor in 1962 trends

These are the maneuvers—some of them never making headlines—that the professionals will scrutinize.

Sen. Barry Goldwater, the leading conservative in the Republican Party, has the most to gain from a conservative surge next year. He would emerge with new prestige as a potential candidate for the White House in 1964.

Goldwater will have a moderating influence on some of the conservative extremists. He is chairman of the GOP Campaign Committee in the Senate; in this role he will encourage conservative groups to work through regular Republican channels. He'll do nothing to deflect campaign contributions from the GOP to the new groups, for example.

Goldwater is the conservative with the best chance of bringing the free-wheeling new groups into some semblance of political order next year. If he can't do it, the far right probably will be written off by the professionals as a major factor in the 1964 Presidential race.

Washington outlook Continued

JFK's aides are somber as they view Congress

White House legislative aides, who this week joined the President at Palm Beach to chart strategy, are pessimistic about the next session of Congress. They expect major trouble on every issue, and seem resigned to defeat on some.

Here's a rundown as seen from Palm Beach:

Tax bill: The 8% credit for new equipment expenditures by business is expected to clear the Ways & Means Committee fairly quickly, but to run into strong opposition in the House. White House staffers are not even planning a hard fight for it.

Health aid for the aged: The White House figures it still lacks three votes in the Ways & Means Committee. Aides are talking about bypassing the committee by tacking the proposal to a Senate bill as a rider. They don't want to do this if it will arouse the anger of Wilbur Mills, chairman of the Ways & Means Committee.

Dept. of Urban Affairs. This proposal takes on new life now that Kennedy has decided to postpone issuing an executive order banning racial discrimination in government-insured housing. The White House staff wants such a department in 1962 so that Kennedy can promote Robert C. Weaver, the Housing Administrator and a Negro, to the Cabinet position. They hope this will satisfy Negro leaders who had worked for the antidiscrimination order. But there's disagreement on how to get the proposal through Congress. Some want to rely on a bill already scheduled for early Senate action. Others think this bill's chances are so slim that Kennedy should try to establish the department through a reorganization proposal.

Trade liberalization. About 220 votes will be needed in the House, where protectionists are strongest. One White House expert on trade figures that Kennedy can count on somewhere between 140 and 170 Democratic votes. This means that between 80 and 50 Republicans will have to vote for the Kennedy plan if it clears the House. Kennedy aides are wondering whether they will find this much support on the GOP side of the aisle.

JFK hopes for quick start to new session

If members of Congress report promptly for work Jan. 10—the day they are supposed to—the flow of Presidential messages will start the same week. **The tentative schedule calls for Kennedy to deliver his State of the Union message personally either Jan. 10 or 11, with the Budget Message a few days later, and the Economic Report of the President Jan. 22.**

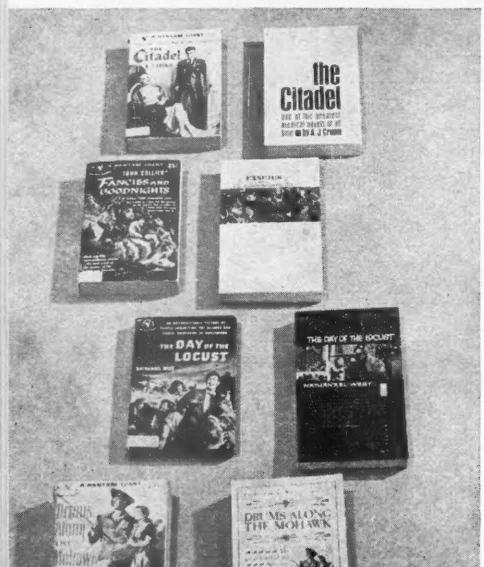
Per Jacobsson has a tonic for worriers

For anyone who would like to start the new year with some sensible good cheer about the future of the market system of doing business, **it's hard to beat a little volume of lectures by Per Jacobsson, manager of the International Monetary Fund.**

The book—only 75 pages—is called The Market Economy in the World of Today. It is in nontechnical language and can be read in a couple of hours. Copies can be obtained from the American Philosophical Society, Independence Square, Philadelphia, for $1.50 each.

Jacobsson, one of the world's most eminent economists, is that rare bird these days—a conservative who is also an optimist. He sees problems—the threat of mounting wage costs, for example. But he argues that the market economy has shown since World War II that it has the vitality to survive and grow even in a world of expanding government powers, perils for the dollar, new trade blocs, and Communist threats.

Paperback trend invades old-line bookstores such as Brentano's, Inc., with paperback mart downstairs in its New York store



Upgrading in paperbacks shows in shift from lurid covers of late 1940s to more sober garb for same books today.

MARKETING

Paperbacks: It pays to go high-brow

Switch to serious books has brought a revolution, and fast-climbing sales, to paperback book trade; despite the crowded market, there seems no end in sight

A decade and a half ago, if a teacher caught a schoolboy sneaking a paperback novel into class, chances are the pupil could resign himself to having the book confiscated, staying a half hour after school, or both. For paperback books meant sex, sadism, or the smoking gun—certainly not the classics.

Today, it's likely that the same teacher is regularly assigning four or five paperbacks to his class each semester as supplementary reading. Pocket Books, Inc., reports that two-thirds of the 60-million books it sells in a year are bought by students. And the state of Texas has voted to spend $100,000 to look into the possibility of paperback textbooks for its public schools.

Such figures are evidence of the revolution that has come to the paperback book business. An entirely new market has been developed from practically nothing in 12 to 15 years—mainly because paperback publishers are printing far better books than they did. This new market has been created without disturbing the growth rate of hard-cover books, library circulation, or hard-cover textbooks.

The soft-cover version of Leon Uris' Exodus, for example, was published while the hard-cover book was still No. 1 on best-seller lists. The hard-cover book continued to sell well, finishing at about 400,000 copies, a highly respectable figure. The paperback sold 4.5-million copies.

"It's impossible to estimate how many of these 4.5-million people would never have read the book—

without a paperback edition available," says Oscar Dystel, president of Bantam Books, Inc., soft-cover publishers of Exodus.

Hen or egg. Most publishers agree it's impossible to tell which came first, the new mass reading market or the new rush to print good literature in paperbacks. They note that even such admittedly high-brow paperbacks as George Orwell's 1984 (2-million copies) and Aldous Huxley's Brave New World (1.5-million) have run up remarkable sales totals.

But because the schools and the public have proved there's a mass market for good books, paperback publishers continue to upgrade their titles. In the last 18 months alone, the number of titles of paperback books has doubled—from 6,500 to 13,900—mostly with books such as Algeria in Turmoil, by Michael K. Clark (Universal Library, a division of Grosset & Dunlap, Inc.); Brahms, His Life and Work, by Karl Geiringer (Anchor Books, a division of Doubleday & Co., Inc.); and The Gathering Storm, by Winston Churchill (Bantam).

"It's fantastic," says one New Jersey teacher. "No matter how obscure, no matter how specialized or academic, it seems that every significant book is now being published by someone in paperback."

I. Split business

Paperback book publishers divide into two distinct types:

1. The mass-distribution field (such as Pocket Books, Bantam, New American Library), which sells its books to magazine wholesalers, who distribute them to 110,000 newsstands, drugstores, supermarkets. These books retail at 50¢ or 75¢.

2. The limited-distribution field (such as Anchor; Universal Library; Vintage Books, published by Random House-Knopf; Grove Press, Inc.; and Meridian Books, published by World Publishing Co.). This sells its books directly to 3,500 outlets, including 1,500 college bookstores and 300 all-paperback stores. These books, usually printed on heavier stock, retail at $1 to $3.

Both fields are growing fast. In the last five years, mass-distributed paperback sales have risen from 224-million units to 280-million, wholesale dollar volume from $41-million to $71-million. Limited-distribution paperbacks sold 13-million copies in 1960, up from 10-million in 1959; wholesale volume jumped from under $3-million in 1955 to about $9.5-million in 1960.

What sells them. The fundamental reasons for the sales climb, of course, are the low price of good books and the new market in schools and colleges ("The great majority of our books are bought by college students," says Pres. Barney Rosset of Grove Press). But publishers add other explanations.

It's "the temper of the times," says Pres. Manuel Siwek of Grosset & Dunlap. This "has created a fabulously greater interest in serious things. World crisis, scientific developments, the necessity of a college degree have each contributed."

The usual whipping boy, TV, gets a good word from Bantam's Pres. Dystel. "Believe it or not," he says, "I think television is behind the whole thing. It has broadened people's horizons.

Movie tie-ins, though less related to the more serious books, sometimes play a part. Alistair MacLean's Guns of Navarone sold only 200,000 paperback copies in four years, then zoomed to 600,000 in three months after the movie came out.

II. Break-even worries

It's not just a matter, of course, of sitting back and counting the cash that flows in. Because of varying cost structures and break-even points, the mass-distribution and limited-distribution publishers have different problems.

A publisher of higher-priced, limited-distribution paperbacks can sell as few as 10,000 copies of each book and break even. Since these books are sold almost exclusively in bookstores and college bookshops, the publishers can put out highly technical or academic works and still be fairly sure of profitable sales.

The mass-distribution publisher, since his over-all margin is so low, must sell at least 150,000 copies of each book to break even. So he has to stick to works of a potentially more popular variety.

Recently, however, there has been a blurring of the dividing lines, with

some mass-distribution people publishing a higher-priced line for bookstores, and some limited-distribution publishers bringing out a lower-priced line for newsstands.

Bigger lump. One fairly recent development has tended to push the mass-distributor's break-even point even higher. That's the increase in the reprint rights payment—what amounts to a lump sum royalty guarantee paid by paperback houses to original hard-cover publishers.

Fawcett Publications, Inc., for example, won reprint rights to William L. Shirer's The Rise and Fall of the Third Reich (Simon & Schuster, Inc.) with a bid of $400,000. Fawcett is reluctant to estimate, but other publishers say the break-even point will be over 2-million copies—nearly as much as the soft-cover sales of the very popular Hawaii, by James A. Michener. The Fawcett edition, either in one volume at $1.65 or two volumes at 95¢ each, will hit the newsstands in May.

Some paperback publishers, trying to reverse the trend and cut their costs, are buying manuscripts and farming them out for hard-cover "preprints."

III. Glutted market?

The paperback idea—reprint or original—is, of course, not new. Its U. S. ancestors were the dime novel, the popular library, and pulp fiction. The first successful U. S. paperback reprint venture of the current era began with the founding of Pocket Books in 1939. In Europe, the first big success came with Tauchnitz, founded in Germany in 1837. In 1930, Tauchnitz found itself with a British competitor, Penguin.

Today, there are 18 U. S. publishers in the mass-distribution field, putting out 185 titles a month—against 82 for the field seven years ago. Almost every hard-cover publisher has a limited-distribution paperback line. Many previously hesitant are jumping in full force. Crowell-Collier Publishing Co. alone is publishing 50 new titles a month. The Macmillan Co., McGraw-Hill Publishing Co., Inc., and others are developing paperback textbooks.

Consequently, some established publishers worry about a glutted market—yet sales figures remain high. All-paperback bookshops are opening all over the country. Considering that the school population will grow by some 45% in five years and the number of Americans who have finished high school is almost 150% greater than 10 years ago, there seems little reason for the paperback market to falter. **End**

In marketing

BW

Conveyor system crosses street to move goods for Akron department store

An Akron department store and Link-Belt Co. have joined forces to lick an all too familiar distribution problem: getting goods into the store from the warehouse fast, and starting them fast on the way to the customer once the store has sold them.

At Polsky's Department Store, a half-mile endless conveyor system called the Trukveyor links the store with Polsky's new four-story service and parking building across the street. It takes only four to eight people to operate the line, which carries some 65,000 lb. of merchandise a day. A variety of merchandise trucks can handle anything from dresses to hi-fi sets.

New stocks come into the service building's receiving dock, move to the marking department and warehouse area (picture, top), then across the street through a tunnel-like bridge (picture, bottom) to the store. It takes only an hour to receive, unpack, inspect, mark, and deliver the goods to any department in the store. On their return trip, the merchandise trucks take purchased goods from the store to the shipping area.

The system frees nearly all the store space for selling, store officials point out. And it means no blocked streets around the store; the loading docks are nearly two blocks from the store's main entrance.

Franklin Simon to move in with Oppenheim Collins in 40-store chain

Franklin Simon & Co. and Oppenheim Collins Corp., New York-based specialty store chains, will be combined into a 40-store chain, it was announced last week. The new grouping will bear the name of Franklin Simon. The two chains are divisions of City Specialty Stores, Inc., a subsidiary of City Stores Co.

In what resembles a game of musical chairs, **Franklin Simon will move its Fifth Avenue store into the modernized Oppenheim Collins building on 34th Street, west of Fifth Avenue.** The vacated Franklin Simon building, at Fifth Avenue and 38th Street, will be occupied by W. & J. Sloane, Inc., a furniture chain that will be fully acquired by City Stores on Dec. 31. E. J. Korvette, Inc., discount house chain, will move into the vacated Sloane site on Fifth Avenue and 47th Street.

Undaunted J. C. Penney makes plans to acquire Milwaukee mail order house

J. C. Penney Co., big department store chain, is making another attempt to get into the mail order business.

Penney last week disclosed plans to acquire General Merchandise Co., a Milwaukee mail order house. This move follows by two months an unsuccessful attempt by Penney to merge with Aldens, Inc., much larger mail order company.

W. M. Batten, Penney president, said the proposed acquisition "will permit us to expedite our entrance into the mail order field and to diversify further our retail operations." Penney operates 1,700 stores in 48 states, an ideal base for a catalogue mail order business.

Fox quits as Fels chairman

A management fight, largely over marketing policy, at Fels & Co. exploded into the press last week. The Philadelphia company, once a leading producer of laundry soap, has been spending large sums recently on new product research and development.

The row came to light when Fels Chmn. Cyril G. Fox resigned and issued a statement that said that he was "in complete disagreement" with the management policies of the company.

Top manager is Pres. David C. Melnicoff, who came to Fels in 1956 and succeeded Fox as president last spring [BW May27'61,p67].

Fox was replaced on the board by Wroe Alderson, a marketing consultant and professor of marketing at the University of Pennsylvania.

This car is breaking the "low-priced" lock on fleet sales!

"How come?" you ask. The answer's all in its name . . . Buick Special.

Nothing can say "savings!" *so fast.*

Look at initial price – you'll have to look way down there in the low-priced field. Then consider operating costs: Buick Special won its class in the 1961 Mobilgas Economy Run, delivering 25.09 mpg.

Look at the Special's reliability . . . but then, if you're a Buick man, dependability is a quality you just grow used to. Fleet managers will also appreciate these Special features: Control Arm Suspension (for all-day riding comfort). Dual-Path Turbine Drive.* Choice of engines – Aluminum V-8 or the exclusive V-6, only V-6 in any U.S. car.

No wonder this year's Special is "locking up" fleet sales all over. Your Buick Dealer has the key to a fleet package full of savings. Or, if you wish, write: Sales Manager, National Accounts, Buick Motor Division, Flint 2, Michigan.

***Optional at slight extra cost**

Buick Special V6 V8

COMPANIES

Underwood fights its way back

Old typewriter company is showing new life since Olivetti took over

Ivy-covered plant in Hartford has served Underwood Corp. for 60 years. Now that Olivetti controls company, the old factory is working overtime.

Once a building is abandoned, someone sooner or later lobs a rock through a window, and pigeons move in to roost. In 1959, wags in Hartford, Conn., were taking bets on when the pigeons would take over the Underwood Corp. plant on Capitol Avenue in the city's west end (pictures).

For at least two years, the 60-year-old factory—a rambling, five-story pile of bricks behind a thinning veil of ivy—had been producing more rumors than typewriters. And all the news was bad. From 1955 to 1959, Underwood was in the red every year, with losses running as high as $14-million in 1959. Even in September, 1959, when Olivetti & Co.—an Italian typewriter company—bought a controlling interest in Underwood, many watching the Underwood struggles winked, and kept their money on the pigeons. In June, 1960, Olivetti bought another block of shares, giving it 69% of the stock, and set out to rebuild Underwood. To outsiders, the guessing was that Olivetti wanted only the Underwood name, and that the old factory would be left to the birds.

Pleasant change. After 18 months under the fine Italian hand, though, the old plant is now buzzing like a toy factory getting ready for Christmas. Underwood claims it is turning out more office-sized, nonelectric typewriters than any other plant in the world; employment is up 20%, with 3,400 workers on a year-round, overtime schedule. And, for the first time, company bookkeepers may be ordering black ink for their ledgers. Even the ivy suddenly is looking healthier.

Industry doldrums. This recovery comes at a time when Underwood's three, big domestic competitors in nonelectric typewriters—Royal McBee Corp., Smith-Corona Marchant, Inc., and Remington Rand Div. of Sperry Rand Corp.—are clearly worried about industry prospects [BW Mar.18'61,p126). The problem—and one shared, to a degree, by Underwood—is competition from low-priced imports, including Olivetti's sleek, flat-as-a-pancake Lettera 22 portable. Today, European imports make up 40% of domestic typewriter sales; in 1956, they came to 15%. This has touched off some furious price cutting among U. S. models, with the result that profits—and stockholders—are taking a real beating. In fiscal 1961, Smith-Corona rang up its biggest sales year, $96-million; but earnings hit only $301,747. Royal finished even worse. It had a net loss of $1.1-million—though sales climbed to $107-million, which was its third highest level in history.

So far, price cutting hasn't hit electric typewriters. The "Big Four" can't draw much solace from this, though. International Business Machines Corp. still has 65% or so of the market. This will probably grow even more with IBM's revolutionary, new Selectric typewriter that uses a small, revolving globe to print its characters, rather than conventional typebars [BW Aug.5'61,p48]. Already, IBM is seven months behind in its Selectric deliveries.

A long road. Actually, Underwood is still a long way from being out of the woods, of course. Last year, the company lost $26-million. But Pres. Ugo Galassi predicts the company will chalk up a profit by mid-1963. So far, Olivetti has poured more than $70-million into Underwood.

About $60-million to $65-million of this went into Underwood's sales organization. Since May, 1960, Underwood's sales force has grown 180%, and in just the last year, the company set up a network of more than 1,000 dealer agencies for sales and service.

The Olivetti approach to sales is saturation. Underwood salesmen get tiny areas, and consider no prospect too small. One competitor tells about the Underwood it found "on trial" at a little tailor shop. The tailor hunts-and-pecks his own bills between stints on the pressing machine.

Factory shape-up. The other $5-million or $10-million of Olivetti's $70-million went for changes in the old Hartford factory. Since Olivetti took over, according to Galassi, Underwood's production costs have been cut 30%, and now approach those in European plants. Smith-Corona, Royal, and Remington are all revamping their plants in hope of doing the same.

Underwood's savings came several ways:

- The plant's machinery was almost completely overhauled, cutting costly breakdowns and repairs.
- Conveyor systems went up throughout the plant, all the way from the paint room and assembly areas to the loading dock, where the finished and boxed typewriter slides down a roller conveyor into one of two trucks at the shipping platform. Today, any pigeon that flies through Underwood's Hartford plant risks getting an Underwood Five, Scriptor, or Raphael right in the head—so busy are all the overhead conveyors.
- Many parts were redesigned for automatic assembly. One of these was the tab rack—the row of lugs that stop the carriage at preselected points when the tab key is pressed. Before, these lugs were hand-set; now, pins are used that can be ma-

Underwood vice-presidents L. C. Gandi (left) and Leonard C. Bowen make frequent visits to assembly areas

chine-assembled many times faster.

- Manufacturing methods were improved, so parts need less final adjustment.
- Underwood's product line was squeezed down to four basic models: one manual office typewriter and three office electrics. In 1959, there were two adding machines, five accounting machines, four peripheral systems for data processing, and four typewriter models, including two portables.

Decline and fall. Before these changes, production was humdrum. L. C. Bowen, Underwood's vice-president of manufacturing, came to Underwood from Royal in 1957, and remembers conditions at the old Hartford plant as "deplorable." Underwood, a front-runner in the typewriter field for 50 years, had prospered during the high-volume years in the 1940s. But apparently it tried to coast too long on the momentum. "The company went on paying an $8-plus dividend," Bowen recalls, "and putting nothing into the plant, and very little into updating the product."

In less than four years, Underwood ran through three managements. As the money dribbled away, the first management took an expensive fling at electronics. The second, in what old-timers remember as the "beat-IBM era," set its sights on data processing, and even tried to merge with National Cash Register Co. Underwood's own board of directors blocked the marriage, though. The third management went looking for help.

By this time, Underwood had a line of goods as cluttered as a spinster's attic, and most of it was about as out-of-date. Underwood workers—when they were working—busied themselves in odd corners of the old factory, assembling all manner of portable and standard typewriters, adding machines, computers, and office gadgets that were steadily losing their market.

Talent loss. For a production man like Bowen, life in the old typewriter plant was a nightmare. "Sometimes," he says, "we didn't know one day to the next how many of what we were supposed to be making." At each slip in sales, Bowen had to lay off more workers. He remembers times when design engineers left their drawing boards to make service calls because there was nobody else who could do it. "In two years," he says, "we managed to lose most of our talent."

At this stage, the Hartford pigeons had their best chance of colonizing the Underwood rafters. Then, Underwood happened to approach Olivetti, in hopes of handling its line in this country. By chance, Olivetti was hoping to broaden its operations in the U.S., and the merger followed.

Back in stride. Now, Underwood

Underwood's competitors watch these goings-on with an expert eye . . .

Story on page 42

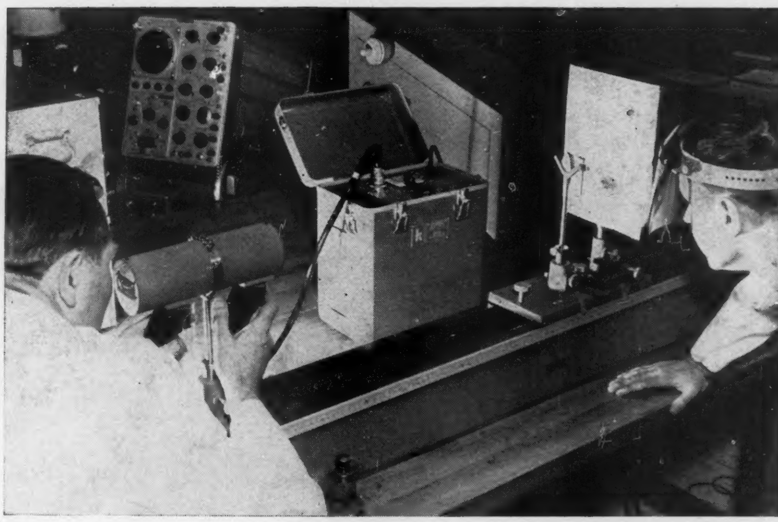
is cranking out typewriters almost like the old days. Production is only 60% of the new capacity, but it's at a constant level. Though Olivetti admits Underwood is producing more machines than it can sell right now, Olivetti feels steady, volume production will keep costs down. Then when—and if—sales catch up, Underwood will be that much ahead.

This is an abrupt turn from the way typewriters are normally produced—at least in the U. S. Traditionally, you turn out as many typewriters as you know you can sell. Royal, Remington, and Smith-Corona keep sales and production in tandem—sales in front, production behind. That's the way it was with Underwood's old management, too. When sales slowed down, production slackened.

Skepticism. Underwood's competitors watch all these goings-on at Hartford with something of an expert—and occasionally, suspicious—eye. Some who see Underwood merrily cranking out typewriters in the face of mounting losses are convinced Olivetti is out to subvert the domestic industry and pave the way for more low-cost foreign imports. Along this line, Smith-Corona and Royal claim Underwood is the one driving prices through the floor. They even accuse Underwood of selling typewriters below cost.

All types of rumors make the rounds, but the hard fact persists that Underwood is still very much in business, with at least the prospect of profits in the near future. "We're not at all troubled by what our competitors are saying or doing," says L. C. Gandi, Olivetti-trained vice-president stationed in Hartford. "Our business is making typewriters, and we feel that the whole secret is that we simply know more about making them than any one else in the business."

Everybody's happy. Meanwhile, morale is rising at Underwood like never before. Production workers, long accustomed to periodic layoffs, are pleased with the steady work. The city fathers also are pleased—so much so they are planning an urban renewal project around the factory. The voters are so pleased that they recently approved the bond issue to start the job. Only the pigeons are unhappy. **End**



Portable PistoLaser "fires" high-intensity light through lens mounted on optical bench to study behavior of pulsed coherent light; power unit is in center.

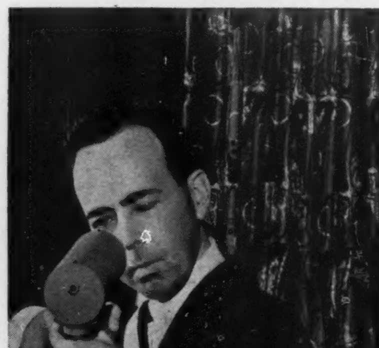
NEW PRODUCTS

Laser gun shoots light rays

Kollsman develops first portable source of coherent light for space-age uses

The two-handled "ray gun" in the hands of Dr. Arthur S. Robinson (right), research director of Kollsman Instrument Corp., a division of Standard Kollsman Industries, Inc., is one of the first products to come out of the company's new research and development group, organized only a little more than a year ago. The double-triggered gun contains a space-age device called a laser, or light amplifier, which produces flashes of tuned, or coherent, light from a resonance effect in a ruby rod stimulated by a powerful flash of ordinary light.

Mobile source. Kollsman calls its product a PistoLaser. Robinson characterizes it as a laboratory and field instrument primarily intended to give researchers and educators a convenient mobile source of coherent light. Many companies are

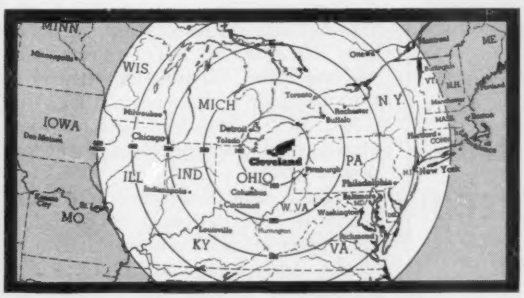


Dr. Arthur S. Robinson, research director at Kollsman, shows how to use gun.

President, The Standard Oil Company (Ohio)

Charles Spahr tells why he feels Cleveland-Northeast Ohio is better than ever

"From our point of view, Cleveland-Northeast Ohio, widely known as 'the best location in the nation,' is now better than ever. The area has shown a steady growth in industrial output and in population. Of even greater importance, it is within 500 miles of more than half the nation's population—and it is abundantly supplied with facilities to reach this market by air, water, rail or road. To anyone engaged in marketing, this means a growing opportunity for the future."

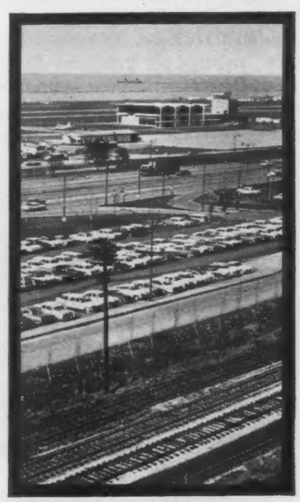


BEST LOCATION IN THE NATION. Cleveland-Northeast Ohio is within 500 miles of 75% of America's industries, 60% of the population, 8 out of 10 of the nation's top markets.

LAKE WITH A DUAL ROLE. Primarily, of course, Lake Erie means an unlimited amount of cool water; but with the St. Lawrence Seaway, it also means world outlets for our products.

RESEARCHVILLE, U.S.A. Cleveland ranks 1st in Ohio, 4th in the nation, in research facilities. About 350 companies and over 16,000 workers are engaged in research here.

TRANSPORTATION HUB. "The best location" is served by nine scheduled airlines, eight railroads, and is near the Ohio turnpike for fastest overland bulk shipments.



Whatever your needs, whether for national headquarters, sites for plants, research, distribution or warehousing facilities, look to Cleveland-Northeast Ohio. For specific information, write or call Richard L. DeChant, Manager of Area Development Department.

THE CLEVELAND ELECTRIC ILLUMINATING COMPANY SERVING

Cleveland-Northeast Ohio

the best location in the nation

now investigating applications of lasers, and Kollsman hopes to be a prime supplier of later, more specialized lasers for devices that will almost surely be developed for use in such diverse fields as medicine, measurement, weapons, communications, optics, and metalworking.

Kollsman's laser is the first portable unit on the market. It comes complete with a 20-lb. battery power pack for $2,950. Within three months, says Pres. David B. Nichinson, Kollsman will produce other, non-portable, models.

Fast comer. Kollsman's laser, along with a few other laboratory laser units of other firms, has come to market remarkably fast.

The laser is a direct result of work by Prof. Charles H. Townes of Columbia University. Several years ago Townes developed the maser—a low-noise radio frequency amplifier first used in radio astronomy. Further work by Townes, sponsored in part by Bell Telephone Laboratories, Inc., led to applying maser action to light amplification, and the first ruby laser was demonstrated by Hughes Aircraft Co. in the summer of 1960.

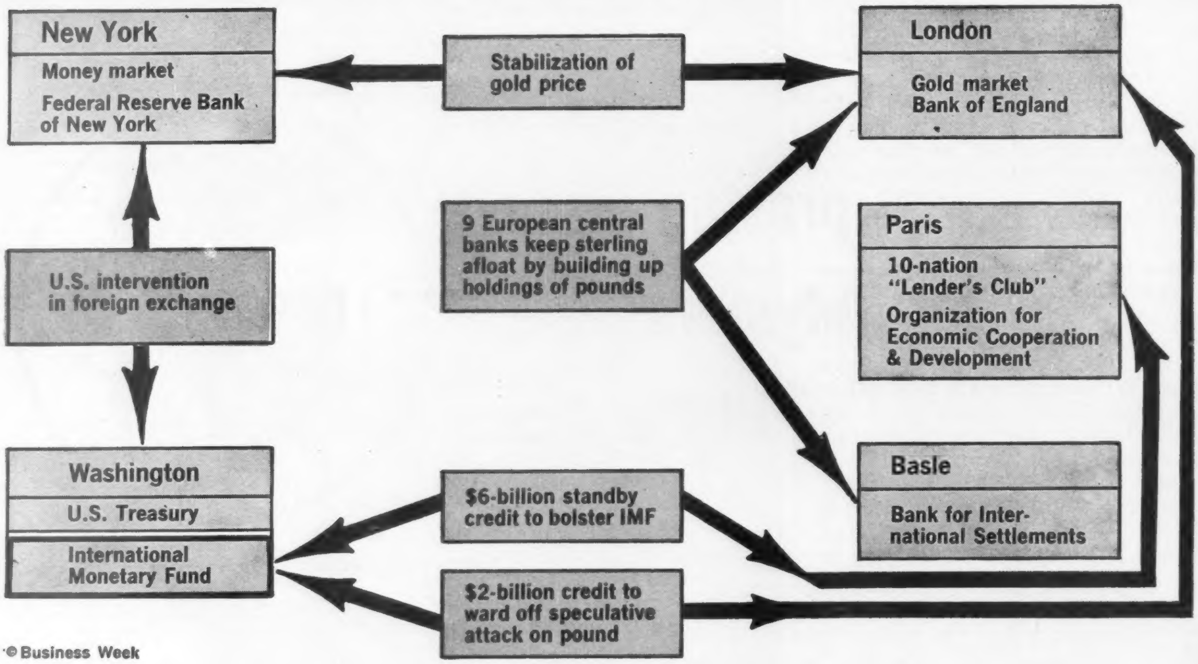
Ruby lasers like the pioneer Hughes Aircraft Co. unit and Kollsman's produce intermittent pulses of light. However, Bell Telephone Laboratories, Inc., demonstrated a continuous laser in February, 1961; this week, Bell announced it had operated a solid laser continuously at low power levels.

A great deal of development work is now in progress on lasers of different types of solid materials. A few weeks ago, American Optical Co. announced it had successfully induced a laser action in a glass compound. This may make possible very large units that will produce great amounts of power.

Jobs. The single-frequency light or infrared radiation from a laser can be focused thousands of times more accurately than any other kind of light. That means a high-powered, tightly focused laser beam could easily produce surface temperatures of hundreds of thousands of degrees on anything it touched. One of its least tasty uses may well be as a destructive "disintegrator" ray. Martin-Marietta Corp. is working on such a device.

Less grisly jobs for the laser include: measuring devices that will have almost absolute accuracy over long distances; carriers with huge information-carrying capacity; and handy medical tools for surgery. Kollsman's PistoLaser won't do these jobs, but it's calculated to be an aid in developing devices that will. **End**

Blueprint for financial cooperation



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FINANCE

Nearer to reality, step by step

Flows of cooperation in international monetary affairs have been set in motion to meet problems that come from currency convertibility, including speculative runs

Just a year ago, the free world's financial authorities talked a great deal about the need for cooperation. But, according to one central banker, "For all the talk, there was more chaos than cooperation."

In the past 12 months, however, impressive steps toward cooperation have been taken (chart). While they fall short of the formation of an international central bank, which some critics feel is necessary, they represent a real strengthening of the free world's financial mechanism.

Price of convertibility. The need to cooperate has been evident ever since the major nations of Europe made their currencies convertible in late 1958. This meant that funds could once again move freely between countries, going into currencies that offered the most yield or the most safety. It also meant funds would flee from a country that suffered from inflation or that had a big deficit in its balance of payments because it was unable to compete effectively against other nations.

These movements from one currency to another can be extremely disruptive. The orthodox way to deal with them is for the country that is losing funds to take unilateral action—by raising its interest rates and tightening money—to bring about a reverse flow. While unilateral action is still being relied on, most nations, in 1961, finally agreed to cooperate.

Defense ready. In effect, the actions that have been taken are the free world's blueprint for guarding against speculative currency runs.

The defenses that have been set up are already formidable. Though additional measures may be needed, the present setup should be sufficient to cope with any short-run speculative attack on the key currencies, the dollar and the pound sterling.

Indeed, the blueprint calls for a defense in depth. The first line aims at moderating the spreads between different currencies, thus discouraging a speculative run. The second provides a country whose currency comes under attack with additional reserves to beat back the speculators.

In part, the defenses are jerry-built. The nations involved had no grand plan of strategy but have been responding to a series of crises.

Gold rush. The first crisis was in October, 1960, when the price of gold in London's free market shot up to $40 an ounce. This "gold rush" was sparked by speculation that the dollar would be devalued. Ordinarily, the Bank of England provides London's bullion dealers with gold to keep the price from getting out of hand. It clearly refrained from

doing this during the gold rush, for it had no assurance that the U.S. would act to replenish the Bank of England's outlay of gold stock.

Treasury officials still do not admit that there is any agreement between them and the Bank of England to supply gold to the London market. But they do allow that "consultations" over the free gold market now take place. And private authorities insist that the U. S. is supplying gold to the Bank of England to feed into the market. They say part of Britain's recent $300-million gold drawing was to replenish gold the Bank of England fed into the market.

Certainly, the price of gold in London supports this view. It has been above the official price of $35 an oz. most of the year, yet it has never risen higher than $35.20. Keeping the gold price fairly stable is a prerequisite to international cooperation. This was achieved in 1961.

German move. It took another crisis to trigger broader international action. This came when Germany raised the D-mark 5% in March. Instead of encouraging an outflow of funds from Germany, it meant that German banks were swamped with speculative funds, particularly from London. Holders of sterling also fled London for Switzerland in expectation that the Swiss franc would be revalued.

In this crisis, heads of the major European central banks, who meet monthly at the Bank for International Settlements in Basle, Switzerland, agreed to hold each other's currencies—in this case, sterling. This central banker's agreement, which involved $910-million in credits to Britain, was instrumental in protecting the pound and stemming the speculative attack.

Built into defense. The Basle agreement, originally conceived as a stopgap, is now an integral part of the first line of defense. Any one of the BIS members can get emergency help. The U. S. is not a member but has a representative of the Fed at regular BIS meetings.

The German revaluation also led to important bilateral actions. For example, the U. S., working closely with the German central bank, began operating in D-marks in foreign exchange markets to ward off speculation against the dollar. In October, the U. S. borrowed Swiss francs from the Swiss central bank for additional foreign exchange operations. These moves help to shore up the first line of defense by moderating fluctuations between the dollar and other currencies.

Lines in depth. While the U. S. and its allies hope that the first-line measures will hold, they recognize that a speculative attack may break through these. Through IMF and the newly formed Organization for Economic Cooperation & Development, they have constructed a defense in depth, one that they feel can weather any speculative storm.

In fact, some officials talk in terms of a three-tiered defense:

- The series of bilateral steps (between the Fed in New York, acting for the Treasury, and central banks in England, Switzerland, and Germany), plus the Basle agreement.
- OECD, which brings together finance ministers from Europe, the U. S., and Canada to work on coordinating their economic policies.
- IMF, strengthened by credits provided by the U. S. and nine other nations [BW Dec.23'61,p26].

Lenders' club. Actually, OECD and IMF are intertwined, for all the 10 nations that have agreed to contribute $6-billion in credits to IMF—except Japan—are members of OECD. This lenders' club allows any member to provide standby funds to supplement normal credit available from IMF. As the group will be consulting regularly through OECD, it can extend cooperation on more than one level. And it's a safe bet that a borrowing nation will have to take any unilateral steps that the other members suggest.

During the summer, Britain got a special $2-billion credit from IMF, in part to repay the Basle lenders. This was before the standby arrangement was made. Britain also adopted a series of stringent domestic measures, including a boost in its discount rate, a call for a wage and dividend moratorium, and the curbing of foreign investment. This action, along with the IMF drawing, brought funds into Britain.

Real cooperation. The nature of the drawing itself reflected the new spirit of cooperation. To avoid putting pressure on the U. S., Britain took only part of the credit in dollars. Moreover, it invested most of its dollars in a special U. S. Treasury obligation at a negotiated rate rather than putting them into gold. This not only slowed the drain on the U. S. gold stock but it also kept the British investment from affecting rates in the open market [BW Dec. 2'61,p123].

Foreign nations do appear to be cooperating to hold down the drain on the U. S. gold stock.

But cooperation has its limits. None of these moves is designed to correct a basic imbalance in a country's balance of payments. This still is a problem that has to be tackled by the nation involved. **End**

In business abroad

Britain chooses director for national group to plan and oversee economic development

Britain's Chancellor of the Exchequer Selwyn Lloyd last week moved a step further toward establishing a National Economic Development Council [BW Sep. 9'61,p47]. **He selected Sir Robert Shone as its Director General.**

NEDC is the proposed three-way board of government, management, and labor to be charged with long-range planning for the British economy. To date, British labor unions have refused to join. Shone's first job will be to coax labor into line; if successful, he then will begin organizing NEDC.

Shone, presently an executive of the Iron & Steel Board, has had considerable experience in planning for a largely private enterprise industry. Since denationalization of steel, the board has overseen its development plans and pricing policies. Shone is a former director of the Iron & Steel Federation, the steel industry's trade association.

Lloyd announced the Shone appointment during a House of Commons speech in which he said that **the present pay pause would be followed by an intermediate phase leading eventually to a national incomes and wages policy.** He gave no indication of dates.

Moreover, he emphasized his hope that trade unions and industry would cooperate in working out both the intermediate phase—which would allow some wage increases but hold down the general levels—and a national policy on wages and incomes.

Quest for markets steps up cooperation between Japan, U. S. in electronics

Cooperation between the electronics industries of Japan and the U. S. has intensified in the past year. For U. S. manufacturers, the big attraction has been low wage rates paid to Japanese workers and the desire to move into southeast Asian markets with Japan as the base of operations. Japanese manufacturers, in turn, are trying to develop overseas markets with the support of U. S. companies.

One example of this trend is Nippon Electric Co., Ltd. Nippon Electric transferred about 50% of its shares to International Standard Electric, subsidiary of ITT, in return for patents and technical knowhow. Moreover, Nippon Electric has made arrangements to sell its products abroad with the cooperation of ISE.

Another Japanese company, Oki Electric Industry Co., Ltd., has bolstered its ties with International Business Machines Corp., with which it concluded a technical agreement in 1959. Now, high-speed chain printers for computers built by Oki will be exported through IBM. Oki also is manufacturing klystrons, transistors, and diodes with the technical assistance of Sperry Rand Corp. and General Instrument Corp.

Mitsubishi Electric Mfg. Co., Ltd., is pushing plans to establish a joint enterprise with General Precision Inc. and Thompson Ramo Wooldridge, Inc., to turn out electronic products for sale throughout the world.

Besides this type of direct hookup, many other Japanese companies are using patents acquired from U. S. companies, especially RCA and Western Electric.

Studebaker-Packard pulls out of Mexico because of import restrictions on components

Studebaker-Packard Corp. is giving up after Mexico's move to restrict foreign participation in its domestic auto market [BW Dec.23'61,p64]. **Mexico virtually denied 1962 import quotas for assembly parts to Studebaker and 12 European car makers.**

Melvin L. Milligan, Studebaker-Packard secretary and general counsel, says Studebaker is looking for Mexican investors to take over its assembly plant just north of Mexico City. But the search is making little progress, and Studebaker will lock up the plant next year if buyers can't be found.

Meanwhile, in a last-ditch stand, Studebaker has filed a petition in a Mexican federal court for an injunction to force Mexico to raise import quotas of parts. **Studebaker claims that the low quotas are illegal under the Mexican constitution.**

For the calendar year 1961, through October, Studebaker assembled 6,500 cars at its Mexican plant. Under the new import quotas, the company would be able to assemble only 250 next year.

Studebaker had imported all major components for assembly, bought locally only such things as brakes, batteries, and tires. If a Mexican group buys the plant, Studebaker will retain no equity but would expect to continue to ship components to the plant from the U. S.

In business abroad briefs

Austria will apply for associate membership in the European Economic Community (EEC). The official request for negotiations came together with similar notes from Sweden and Switzerland, the other European neutrals. These countries cannot accept full membership in EEC, with its political implications, because they feel it might impair their neutrality, whereas they feel that economic cooperation would not.

U. S. Steel Corp. has joined hands with Terni, the Italian industrial and electrical concern belonging to the state-owned Finsider complex, to form a new company. To be called Terninoss Acciai Inossidabili S.p.A., the company will produce stainless steel sheets at the Terni plant. Production will start in 1963. Capital stock of the venture is $6-million, with U. S. Steel supplying half of the total.

Amstel Breweries of Amsterdam is planning to build a brewery in Puerto Rico, near San Juan. Cost of the brewery is about $4.5-million. It is expected to start operation some time in late 1963.

SPECIAL REPORT

A new Europe built on unity

Expanding rapidly, the European Economic Community raises new problems and opportunities for the U. S. The next step will be Britain's entry into the EEC

Rapid economic expansion, rising standards of living, and the blurring of national boundaries—these are the principal elements of the revolutionary change that has overtaken Western Europe during the past decade.

During the 1960s, the change will quicken in Europe. Large-scale production and giant corporations, some of them U. S. subsidiaries, increasingly will dominate the industrial scene. Consumer buying of autos and appliances will head rapidly toward U. S. levels as more workers push their way into the middle class.

Now that the movement toward European unity has engulfed Britain, you can expect that within five years Europe will have a single mass market consisting of 10 countries and almost 250-million people.

This enlarged Common Market, called the European Economic Community (EEC), will be held together by a common customs tariff, a common agricultural policy, and some kind of political confederation. Its economic policies will all be handled by the European Commission in Brussels. The other free nations of Western Europe—eight of them—will be closely associated economically, some of them perhaps becoming members in the end.

Historic break. Britain, to be sure, still has to negotiate its way into the six-nation EEC. So do the other applicants—Denmark, Norway, and Eire. But already the Macmillan government has decided on a startling break with the past—a shift away from Britain's ancient currency of pounds, shillings, and pence to the decimal currency system introduced on the Continent by Napoleon.

It also seems certain that France and Britain soon will be joined by a cross-Channel tunnel or bridge, thus ending another aspect of British insularity and giving still more scope to Europe's auto age.

Economic weight. Look at the underlying economic, social, and political changes—or even at such surface things as the decimalization of sterling—and you will see that Europe hasn't experienced anything comparable since the combined influence of the Industrial and French Revolutions set off the great industrial expansion of the 19th Century.

Europe clearly is on the move once more. It's making up for its economic stagnation between World Wars I and II, duplicating the consumer revolution that started in the U. S. in the early 1920s, and creating a combined economic weight that soon may equal that of the U. S. and surpass that of the Soviet Union.

Impact on U. S. Of all the revolutionary changes in the world since 1945, the revival of Europe—now that it is unifying—as an independent force in international affairs may prove to be the most important. In its impact on U. S. foreign economic policy, and on our political and military policies, it probably will far outweigh the revolution of rising expectations in the underdeveloped nations. To meet the economic impact, the Administration has decided, we must drastically liberalize our trade policy.

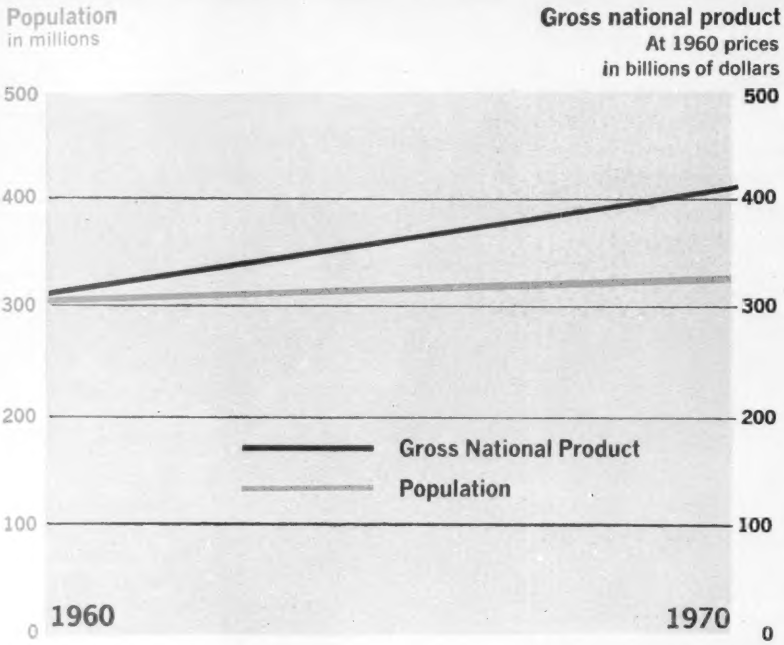
You could say that this fast-growing, increasingly unified Europe is just what the doctor has been ordering since Marshall Plan days—the doctor being the U. S. under three different administrations.

As Pres. Kennedy told the National Assn. of Manufacturers, our backing of European unity has helped produce a "House of Europe" that is "strong enough to share in

Impact of industry

Fueling Europe's economic expansion is its fast-growing industry. Main pockets of production [in color] boast many plants, varied resources—ranging from electronics and textiles to coal and iron. Capacity in chemicals, autos, and steel will reach U. S. levels during the Sixties.

Europe: $100-billion growth by 1970



How GNP will grow per capita

1960 prices

Enlarged economic community

1960		1970
$1,573	Luxembourg	$1,971
$1,331	Belgium	$1,710
$1,276	France	$1,672
$1,349	Denmark	$1,630
$1,299	Britain	$1,612
$1,259	W. Germany	$1,574
$1,236	Norway	$1,570
$ 978	Netherlands	$1,264
$ 650	Italy	$ 907
$ 630	Ireland	$ 793

Associated nations

1960		1970
$2,040	Iceland	$2,550
$1,631	Sweden	$2,128
$1,584	Switzerland	$1,996
$ 952	Finland	$1,219
$ 801	Austria	$1,045
$ 365	Greece	$ 471
$ 308	Spain	$ 397
$ 248	Portugal	$ 310

full partnership with us the responsibilities and initiatives of the free world."

Three-way channel. The problem will be to adjust our policy so that the U. S. and Western Europe—the two super economies of the free world—can be harnessed together in terms of what Kennedy describes as "our common military, economic, and political aspirations."

It shouldn't be too difficult to adjust our diplomatic relations to a unified Europe. For example, if Britain, France, and West Germany get close enough together politically to develop a joint foreign policy for the enlarged EEC, the U. S. will be dealing, in effect, with one great European power. Then the White House and the State Dept. will have only one channel to go through, instead of the three separate channels we now must maintain with London, Paris, and Bonn.

Military snags. The need for adjustment in the military area is more immediate. That hangs on the question of whether Europe is to have an independent nuclear deterrent as part of the NATO setup or as a separate weapons system built around Anglo-French nuclear power.

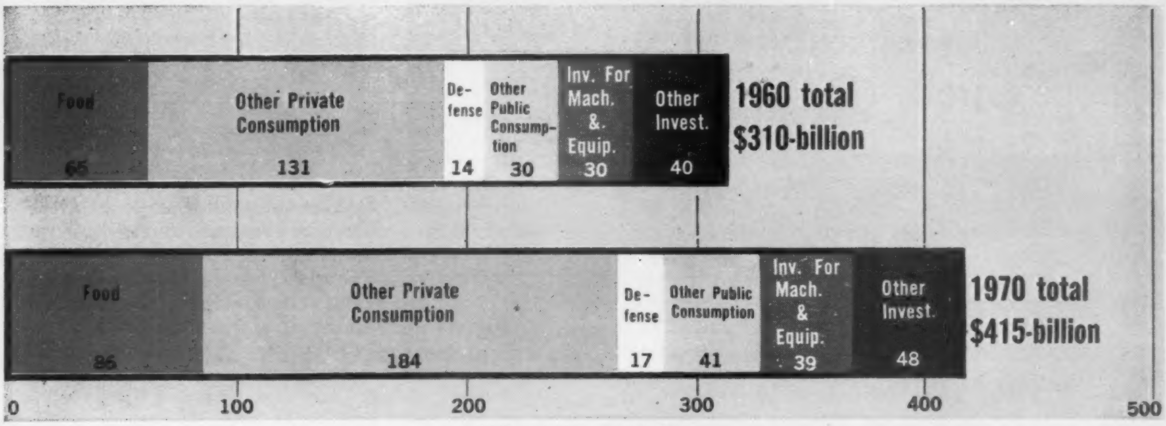
We might work out an independent NATO deterrent based on the Polaris missile—with the Europeans paying the cost. This would cover fully our military expenditures on behalf of Europe's defense, thus easing the extra strain that could be imposed on our over-all balance-of-payments position by freer trade between the U. S. and Europe.

Trade policy at stake. Liberalizing our trade policy to keep in step with Europe will be the hardest adjustment for the U. S. to make. We soon will face an enlarged EEC with no internal tariffs for industrial goods, but with a relatively high external tariff. On top of that, Europe will have a highly protectionist, planned market for agricultural products. Today, Europe is by far our largest export market—buying some $6-billion a year from the U. S., while it sells us $4-billion (chart, page 68).

One catch is that the six-nation EEC is more than a European arrangement. It is the center of a trading system reaching into Africa and the Caribbean and taking in some 16 independent countries. Britain, for its part, is the hub of a still larger trading area—one that includes the Commonwealth and totals 60 countries with a population of 750-million people. The Commonwealth, of course, will be loosened considerably by Britain's entry into EEC.

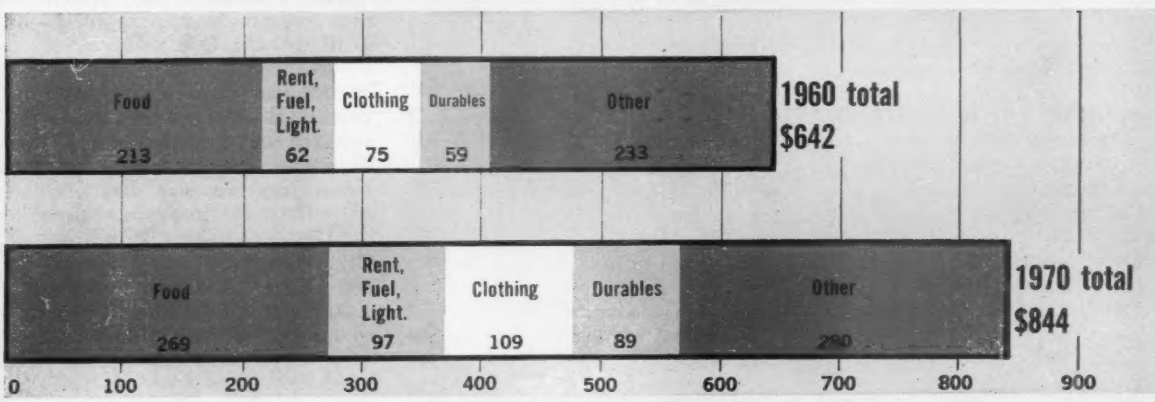
More flexible law. Complicating our problem is the fact that, as leader

Consumer spending will set the pace for Europe's growth...



GNP in billions of dollars

with increased spending for these consumer items.



Consumer dollars per capita.

of the free world, the U. S. also is concerned with the impact of Europe's customs union on Canada, Japan, and Latin America. In the case of Latin America's tropical food products, it is the exclusive trading arrangement EEC has made with the associated overseas states that is worrisome.

The Administration believes there is only one way to meet this new situation. That is to replace the Reciprocal Trade Agreements Act, by next June if possible, with more liberal and flexible trade legislation that would give the President authority to bargain down EEC's external tariff on industrial goods and get the mutual concessions generalized to other free world nations (page 67).

If Kennedy gets this kind of legislation from Congress, there is no certainty that Western Europe will be in a hurry to strike a sweeping tariff bargain. Some observers believe that the enlarged EEC, with London going along, will be just as sticky about negotiating a worldwide system of freer trade with the U. S. as the Six were about negotiating a Europe-wide system of freer trade with Britain and its partners in the now disintegrating European Free Trade Assn. (EFTA).

Roadblocks. You could argue, as some U. S. trade specialists do, that the U. S. will end up, in any case, by joining with the enlarged EEC to form an Atlantic Common Market. So, why not set this goal now?

One of the troubles with this approach is that it would expose U. S. industry to even more competition in the domestic market than the present Administration plan. Then, there's the fact that we can't afford to leave Canada, Latin America, and Japan to shift for themselves.

Bretton Woods' goals. The Administration's program, say some top financial authorities in Washington, could bring us out about the same place the U. S. set out to reach at Bretton Woods. We have achieved currency convertibility, these men say, and that was one of the two basic goals set at Bretton Woods. Now, if we can get around Europe's regional trading setup, we could head for the other goal—virtually free multilateral trade.

If Congress should give the President authority to move toward freer trade with Europe, more and more big U. S. companies would think and operate in terms of a world market. And the moment our new trade policy was set, there would be a surge of new investment here in labor-saving plant and equipment, as U. S. industry got set to take advantage of the new export opportunities in Europe and to meet the increased European competition in our domestic market.

European industry, including many U. S. subsidiaries, would do the

same across the Atlantic, adding staying power to the investment boom Europe has been having for the past 10 years.

I. Europe's growth in the Sixties

A letter recently sent from Copenhagen to London, by one American to another, starts out:

"Welcome to Europe, the land of prosperity. Though for years I have been a close observer of Europe and spent some time here less than a year ago, I am struck again by the general look of wellbeing (just the way people dress), the continuing increase in car ownership, the amount of intra-European travel (by both businessmen and others), and the feeling something like a United States of Europe is really emerging."

If this, in a word capsule, is the economic stage Europe has reached today, here are some capsulated statistics that tell how it got there. Between 1953 and 1960, these were the combined gains made by the 18 West European nations:

- Per capita gross national product (in real terms) up 30%, as against 6% in the U. S.
- Private consumption up 35%, and public consumption 18%.
- Total fixed investment up 65%.
- Exports to outside up 80%.

Impressive gains. If you take the six EEC nations as a group, the 1953-60 record is even better. Real per capita GNP rose 36%, while exports more than doubled.

Growth rates may not be so rapid in Europe during the 1960s, even though by 1970 a majority of the 18 nations almost certainly will be tied together in an enlarged EEC, thus giving Western Europe as a whole the kind of stimulus to growth the Six have been getting. Without allowing for any such stimulus and just projecting the combined growth of the 18 nations on the basis of performance through 1960, you get very impressive gains. By starting with 1960 prices, and projecting with the annual growth rates used by the Twentieth Century Fund in its study, Europe's Needs and Resources, total 1970 GNP is up 33% to $415-billion (charts, pages 60-61).

Private consumption shows the biggest gain—38%. Although the increase in total fixed investment (28.5%) is well below that recorded between 1953 and 1960, investment in machinery and equipment goes up a healthy 30%, to an annual figure expected to reach $39-billion.

Richest markets. In terms of per capita GNP, Europe's richest markets in 1970 will be Sweden, Switzerland, Luxembourg, Belgium, France, Denmark, and Britain—with the per capita figures ranging from $2,128 to $1,612. On this basis, even the top countries fall well short of the U. S.' per capita GNP of $2,791 in 1960. But the European figures are expressed in dollars at current official exchange rates, and tend to reflect as much as 25% less than actual buying power within each country.

The combined GNP of Western Europe in 1970, when you make an adjustment for this difference, comes out at around $520-billion, or a little above that of the U. S. in 1960.

Political factor. Europe's growth rate in the Sixties will depend partly, of course, on whether there is continued political stability within the leading nations. It will also depend in part on the speed with which economic integration moves ahead.

For example, France may enter a period of unrest when Pres. de Gaulle leaves the scene, and West Germany would face a period of economic uncertainty if the Social Democrats were to win the next election. Moreover, differences between Paris and Bonn over EEC agricultural policy could slow the pace of unification among the Six and aggravate the problem of Britain's accession to EEC (page 65).

Consumer revolution. Any big increase in the rate of defense spending also could alter the outlook. The 1970 GNP projections actually show a drop from 1960 in the percentage of total product going to defense—4.5% to 4.1%. By contrast, private consumption goes up from 63.2% to 65% of GNP.

Popular pressures, of course, will be all on the side of consumption as against defense. Europe is going through the same consumer revolution that the U. S. experienced in the 1920s and 1930s. In fact, so long as personal income keeps going up—and there is no sign that unemployment will become a problem—there seems almost no end to potential demand for cars, household appliances, and better clothing. And, to satisfy and stimulate this demand, a distribution system geared to a one-class market has developed in Europe, with consumer credit facilities patterned along U. S. lines.

Concentration of industry. Given this basic situation, you can expect the continued rapid expansion of Europe's big industries and a tendency for the bulk of production in each to become concentrated in a relatively few giant firms.

The automobile and chemical industries illustrate almost better than anything else what's going on in Europe today. In thumbnail sketches, here's how various industries will shape up during the Sixties.

Automobiles

For Western Europe as a whole, estimated capacity for cars in 1965 will be 8.7-million a year, as against 4.9-million in 1960. For commercial vehicles, the figures are 1.5-million against 1-million. This will give Europe an industry comparable in size to that of the U. S. today.

West Germany will be the leading car producer, as it is now, with Britain the leader in commercial vehicles and a little ahead in combined capacity. France and Italy taken together will have slightly more capacity for cars than either the Germans or the British.

In 1965, European producers will sell about 4.5-million autos within Europe, another 1.5-million or more to the outside world, including the U. S. If you add commercial vehicles, total European exports in 1965 may reach 2-million. European producers will supply most of the vehicles to third markets in the world, leaving little room for exports from the U. S.

U. S. share. U. S. companies, however, will get a good share of the European "domestic" and export business through branch plants across the Atlantic. In fact, Ford—with its big plants in Britain and a smaller one in West Germany—will be one of the Big Three in Europe's automobile industry, coming in just behind Volkswagen and British Motors Corp. GM's Opel may nose out Mercedes for second place to Volkswagen in Germany, and Vauxhall will rate third or fourth in Britain.

By 1965, nine companies at most will account for the great bulk of Europe's motor vehicle production—Volkswagen, BMC, Ford, Fiat, Renault, GM, Citroen, Mercedes, and Peugot.

Chemicals

During the 1960s, the chemical industry in Europe will be growing even faster than the auto industry,

as it has over the past decade. To an increasing degree, the emphasis will be on petrochemicals—the raw materials for plastics, synthetic fibers, pharmaceuticals, and other products.

By 1970, the industry estimates, total turnover in chemicals in the present six-nation Common Market will rise by about $12-billion. One forecast for Western Europe as a whole puts total "domestic" sales at $30-billion in 1970, export sales to outside areas at $5-billion. Comparable figures for 1961 would be about $18-billion and $3-billion respectively.

ICI's move. This prospective growth explains why Britain's Imperial Chemical Industries, Ltd., is pushing exports to the Continent in such a big way. ICI has less than 1% of this market today but aims to get 10% of the increase that's coming in the Sixties. If it can do this, ICI's Continental sales in 1970 will be bigger than its current sales of almost $1-billion in Britain.

Already Europe's biggest chemical company, ICI plans to invest $300-million on the Continent, much of it to build a complex of petrochemical plants on a 300-acre site at Rotterdam.

To add to its competitive strength, ICI late in December announced that it hopes to take over Courtaulds, Ltd., Britain's biggest manufacturer of synthetic fibers.

Leaders. The top chemical companies in Europe, in order of current sales, are ICI, Farbenfabriken Bayer A.G., Farbwerke Hoechst A.G., Badische Anilin & Soda Fabrik A.G., Montecatini Mining & Chemical Co., St. Gobain, Distillers Co. Inc., and Pechiney S. A.

Between these leaders and many small firms are a number of large chemical companies, including a number of U. S. subsidiaries, that will continue to thrive.

Steel

In Europe's steel industry, there is no sign yet of the concentration you have in chemicals and autos. Nor is there likely to be anything like so rapid an expansion in steel.

This year, production in West Germany—Europe's top steel producer—actually is slightly below 1960, and further production cutbacks are slated for the first half of 1962. Some observers in Bonn say now that German steelmakers as well as others in Europe have overbuilt their capacity, that it will take at least two years before demand catches up.

Top producers. By American standards, there are no really big

Auto industry—one of the fastest growing in West Europe—will have an estimated capacity for 8.7-million cars a year by 1965. The Fiat assembly line (above) in Turin, Italy, is one of the most modern and efficient plants in Europe.

steel companies in Europe. None produces more than about 3.5-million metric tons. By country, here are the top eight, almost all around 3-million metric tons:

Germany: August-Thyssen-Huette A.G.; Phoenix-Rheinrohr A.G.

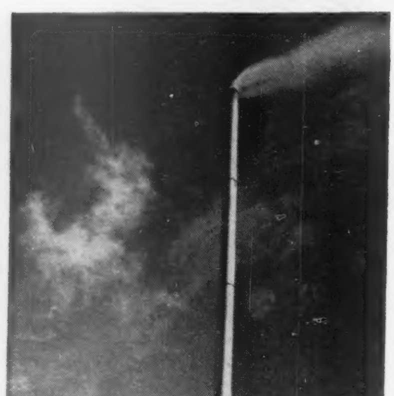
Britain: United Steel Companies, Ltd.; Steel Co. of Wales, Ltd.

France: Usinor; De Wendel et Co., S. A.

Belgium: Cockerill-Ougree S. A.

Luxembourg: Arbed.

Even so, a big expansion in steel production can be expected during the 1960s. According to one estimate, perhaps too optimistic, steel output in the present EEC area will reach about 90-million metric tons by 1965, and somewhat over 100-million metric tons by 1970. (Between 1950 and 1960, EEC output rose from 32-million to 73-million tons.) When you count in British production—slated for 35-million tons by 1970—you have a European steel industry that reaches the U. S. level.



Chemical industry, a pacesetter, is symbolized by Monsanto Chemicals, Ltd., plant in Ruabon, Wales.

Market shifts. As production has climbed in Europe, there has been a shift in major steel markets and in the type of steel in demand. For example, the auto industry for the first time has become a more important steel outlet than shipbuilding. At the same time, hardware manufacturing is catching up with the construction industry as a major user of steel.

Energy

With all the industrial expansion, and rising household demand, far more primary energy will be needed in Europe. According to the latest OECD estimates, 1970 demand for energy will be approximately 1.2-billion tons of coal equivalent, compared to an estimated 900-million tons in 1960.

To fill this demand, OECD estimates, Europe will have to increase its imports from the equivalent of 250-million tons of coal to 420-million tons. In this estimate, however, 1970 imports of crude oil could range all the way from 320-million to 405-million tons equivalent, depending on the price of imported coal and on supplies of natural gas.

Two results. Largely because a growing part of Europe's energy needs will have to be met by imports, it is now widely believed that EEC will have to work out some energy coordination scheme.

Western Europe faces a comparable problem with its basic food supplies—how much to produce at home and how much to import. But it is clear that rising farm productivity soon will make Europe a surplus producer of many crops, regardless of government policies.

Economic coordination

The European Commission in Brussels—EEC's executive body—has been doing its best to find some answer to this agricultural dilemma, and soon will be up to its ears in the energy problem.

It also is working on plans to harmonize antitrust legislation among EEC nations. It is even making recommendations on economic policy to member governments.

Although this kind of role still is controversial, the Commission may well become a super-planning agency someday. France, alone among present EEC members, attempts national economic planning on a serious scale. But even the French now say that their national approach makes little sense in the larger context of European unity.

Currency problem. Perhaps the most important question is whether the enlarged EEC should move toward closer financial coordination and what would amount to a common currency.

With Britain entering EEC, the "City" in London would like to become Europe's banking and financial center, with sterling the key currency. There's no doubt that London has the best equipped banking system and financial markets in Europe.

The trouble is that sterling at present is not strong enough to be acceptable as the key currency of Europe. Moreover, it is likely to take Britain several years at least to correct its basic balance-of-payments problem, thus giving sterling the needed strength.

It's possible, of course, that the private banking institutions on the Continent plus the central banks will find a way to bolster London's position without any basic changes in the present financial system.

However, Commission officials in Brussels doubt if this can be done. They think that sterling needs shoring up by a European Reserve Union.

EEC solution. Commission officials argue this way: After Britain enters EEC, the difficulties in maintaining sterling as a key currency will become a concern of the other EEC members. At present, the Six hold about one-fifth of the total sterling liabilities. These total about $11-billion—or three times London's gold and convertible currency reserves. In effect, then, the Six are the largest single holders of sterling, with claims divided about 50-50 between official and private holders.

Once Britain is inside EEC, so the argument goes, London is likely to run a deficit in its payments with other members, and Continental accumulations of sterling will increase, especially in private hands. But this is just the time when it will be essential to increase the rate of economic growth in Britain—something that can be done only by giving the country a breathing spell from the pressures against sterling that arise whenever there is economic expansion in the British economy. The only way out of this jam will be a joint reserve system, either on an Atlantic or a European basis. The Six have currency reserves among them of around $16-billion to contribute to the system.

Priority. To a large extent, this financial question will be settled by the relative priority that Europe's political leaders give to financial sta-

bility, on the one hand, and to full employment and growth on the other.

Political

This question may hang, in turn, on the future political development of EEC—on whether the "political integrationists" win out and give the Commission real supranational powers, or whether Pres. de Gaulle prevails with his idea of a loose political confederation without a strong executive body at the center.

So far, the Commission doesn't have the supranational powers that the integrationists had hoped to give it. On most matters, the power of decision rests with the EEC Council of Ministers.

British dilemma. It still is far from clear whether the Commission will gain or lose authority when Britain joins EEC. But in size (300 British officials will go to Brussels), it could become so cumbersome that some radical reorganization would be necessary, perhaps even some increase in the executive authority of top commission officials.

In any case, the British can be expected to play an important role in the Brussels setup, just as they did in the Paris headquarters of OEEC. A British official such as Eric Roll, London's key negotiator with the Six today, could well move up beside Commission Vice-Pres. Robert Marjolin, who is top Frenchman in EEC's Brussels organization.

II. Britain makes a historic move

In January, Britain and the EEC will come to grips with the over-all problem of British membership in the Common Market. At two earlier meetings in November and December, British and EEC ministers agreed with surprising ease on the technical approach to their historic negotiation.

The atmosphere in Brussels is frankly optimistic. Most EEC officials, even those with cynical memories of past British diplomatic maneuvers on the Continent, appear convinced that the British are sincere in their EEC bid, even if they have to ante up a fairly stiff initiation fee for membership.

Offstage. There will be plenty of crisis periods in the talks—times when it will look as though the thing is going sour—warns one EEC official in Brussels. But it's generally expected that by the beginning of 1963, London will be a member of EEC.

Until the British bid is decided, other nations such as Denmark, Norway, and Ireland—all of whom also want EEC membership—will hang back. The Danes frankly admit they'll drop their bid if Britain backs out.

Export drive. British industry, at the turn of the year, is more anxious than ever to join up with the Six. Britain's exports to the Continent increased 20% this year on the heels of the first real sales effort that British industry has ever made on the Continent. Exports that have gone up include many competitive items such as machine tools, diesel engines, steel tubes, tractors, cars, textiles, vacuum cleaners, and a long list of consumer goods.

Commonwealth priority. The complex, almost nightmarish job of fitting Britain into EEC rests mainly on the task of easing the strain on the Commonwealth, on Britain's own industrial and agricultural interests, and, finally, on the other members of EFTA. It is generally agreed that the Commonwealth problem is the hardest nut to crack.

The intricate preferential trading system between London and Commonwealth members came into being on a piecemeal basis, hitting its high point at the Ottawa Conference in 1932.

In the postwar period, however, with political and economic changes sweeping through the old system, Britain's share of Commonwealth trade—as well as the importance of the 1932 preferential system—began to decline. Today, roughly half of Britain's imports from the Commonwealth enjoy preferential treatment.

Conversely, less than half of British exports to Commonwealth countries get preferential tariff treatment.

Five major problems. Still, Britain's Commonwealth arrangements are of vital importance to certain

The negotiators at Brussels

For Britain:
Whitehall economist Eric Roll

For Commission:
French economist Jean-F. Deniau

U. S. observer:
Ambassador W. Walton Butterworth

United Europe founder:
Jean Monnet, backstage broker

member countries and to certain industries within almost every Commonwealth country.

To get a better grasp of the Commonwealth problems, EEC officials break them down into five groups:

1. **Temperate-zone agricultural products.** These Commonwealth imports into the United Kingdom concern mainly Canada, Australia, New Zealand, and India. Wheat, wheat flour, grains, meat, butter, and sugar are the important products here.

With the exception of New Zealand butter—that country's main source of export income—few other products in this group can expect special treatment from EEC.

This part of the Commonwealth problem, in fact, is not likely to be handled by just the U. K. and EEC negotiators alone. The line in Brussels—wholly approved by Washington—is that marketing temperate-zone agricultural products is a worldwide problem.

Thus, as the U. K.-EEC over-all negotiations grind along this winter, a parallel set of talks on temperate-zone food products—probably within GATT at Geneva—will tackle the problem on a global basis.

2. **Tropical foodstuffs and raw materials.** No one in Brussels is very worried about the outcome of this question. It's pretty well admitted on both sides of the negotiating table that the Commonwealth countries involved—mainly African and Asian—have to be taken care of. Some of the main tropical foodstuffs—cocoa, coffee, tea, and tobacco—already are well off under the proposed common external tariff of EEC.

Tropical raw materials are less of a problem. EEC common tariffs on such commodities as copper, tin, rubber, wool, cotton, and jute are extremely low, or often nonexistent, as Britain's are.

The main U. S. concern on this point is to see that EEC officials keep in mind the interests of Latin American countries as well.

3. **Low-wage industrial goods.** Commonwealth members such as India, Pakistan, Ceylon, and Hong Kong are the ones involved here. As with its approach to the problem of Commonwealth temperate-zone food products, EEC is taking the position that low-wage industrial goods from the Commonwealth will have to be treated on a worldwide basis.

One possible solution is suggested by the cotton textile agreements, reached within GATT last July.

4. **Normal-wage industrial products.** This problem mainly concerns Canada, which is the only big exporter of industrial goods to Britain. There is little doubt that Canadian exports of newsprint and chemicals will suffer in the British market if present EEC common tariff levels are maintained. British negotiators will push hard to get these specific tariff levels down, or to get at least some sort of tariff-free quotas for Canada.

5. **Industrial raw materials.** Obviously, this fifth and final category overlaps somewhat the narrower issue of tropical raw materials. Yet some of the most difficult items in this category—notably Canadian aluminum—are produced in temperate-zone Commonwealth nations. British negotiators are seeking zero or near zero EEC common tariffs on some two dozen industrial raw materials.

For the moment, the only predictable clash centers on the special case of aluminum. And it looks like a test case, since France is a big producer.

Other facts. While these Commonwealth problems represent the hard core of the negotiations, other facets of British membership in EEC could cause trouble during the long talks. There are the interests of Britain's own industry and agriculture.

Tariffs. More important than any loss British exporters may suffer in the big Commonwealth markets will be the effect of European competition in the British market. It's estimated that Britain, even assuming a grace period, will have to make tariff cuts of 60% from present levels by 1964.

On the other side of the coin, of course, the tariffs of EEC countries against British goods would come down in many cases. This is one of the main motivations behind Britain's bid to join the Six.

Actually, the changes in store for British industry won't be so revolutionary as those French businessmen have been going through since internal tariffs started going down in EEC three years ago. After all, the British have a long export history in competitive markets.

Industrial push. Then, too, Britain's industry doesn't have to worry, as U. S. industry does, about relative costs vis-a-vis the Continent. In most products, costs average about the same in Britain as in the Six.

British steel prices are easily competitive with Continental prices. Certain big industrial groups such as Shell, Unilever, and ICI have long been operating on an international scale. And don't forget that Britain's auto industry urged EEC membership years ago. (British Ford's Anglia, despite discriminatory tariffs, outsold Volkswagen in Italy in 1960.)

Still, some parts of British industry, habituated to sleepy operations behind protective trade barriers, will

Britain revamps its currency

Spurred by plans to join EEC, the British expect to shift from pounds, shillings, and pence to the decimal system used on the Continent and in the U. S. Here's what will happen:

Present system	Decimal system	Dollar value
£1 note	————	$2.80
10 shilling note (½£)	1 new pound	1.40
5s	50 cents	.70
Half crown (2½s)	25 cents	.35
2s	20 cents	.28
1s	10 cents	.14
6 pence	5 cents	.07
3d	2½ cents	.035
1d	1 cent	.0116
½d	½ cent	.0058

have to pick up the pace, or go under. In this position are cotton textiles, leather goods, watches and clocks, and possibly footwear and toys.

Subsidy upset. The impact of EEC membership on British agriculture will be more sweeping than on industry. It's also going to be hard on the British consumer. That's because of the different subsidy systems used by Britain and the EEC nations in helping their farmers.

In Britain, where almost all food imports are duty-free, food prices are determined by classic supply-and-demand factors—to the advantage of consumers. But the farmers get deficiency payments from the government. In EEC nations, food prices are held high by restrictive imports. So it's the EEC consumer, rather than the taxpayer, who foots the farm subsidy bill.

As an EEC member, Britain would have to reverse its farm subsidy program. This will be fine for the British Treasury—which puts up $600-million annually in deficiency payments to British farmers. But it won't sit well with the British housewife. Grain products, meat, and butter will cost more, for example.

III. U.S. fashions new trade policy

As Europe moves toward an integrated economy potentially as powerful as that of the U.S., the Kennedy Administration is fashioning a new trade policy for this country. Kennedy's aim is to get the U.S. in position to bargain down the new trade barriers that are going up around Europe's expanding Common Market, and thus keep the door open for U.S. exports (chart, page 68).

What Kennedy wants. Details of the new foreign trade legislation that the President will ask from Congress have not all been filled in, and won't be until Kennedy has consulted fully with Congressional leaders. But, in broad outline, the President wants authority to:

- Cut tariffs drastically over three to five years (in some cases to zero) through reciprocal bargaining with Europe on types of manufactured goods in which the U.S. and Europe dominate the world market.
- Eliminate tariffs on the products of tropical underdeveloped countries without demanding reciprocal concessions from them. Europe would be pressed to follow suit.
- Cut all other tariffs reciprocally, possibly by as much as 50% over three to five years.
- Engage in across-the-board or "linear" tariff bargaining with Europe. That means that the U.S. would be able to offer tariff concessions on broad categories of industrial goods instead of only on individual products as prescribed by the Reciprocal Trade Agreements Act.

Proposed changes. Kennedy also will propose other important changes. The old "peril point" provision of RTA will be scrapped if the Administration gets its way. This prohibits the Administration from cutting tariffs below levels that the Tariff Commission judges would threaten domestic industries with injury from imports.

However, the "escape clause" would be retained in a modified form. In its new form, it would provide that any tariff relief granted to an injured industry or company would be temporary, designed to give time for adjustment to foreign competition, not permanent protection from it. And temporary protection would be supplemented or, in some cases, replaced by federal assistance to injured domestic enterprises and their workers.

Basic concept. One basic concept of past trade policy would be reaffirmed—the Most Favored Nation principle. This is enshrined in the General Agreement on Tariffs & Trade (GATT) and requires signatories to give any tariff concessions they make to one signatory to all the others.

The Administration feels strongly that this is essential to protect the vital trading interests of other allied and friendly nations such as Japan and Canada. By the same token, it means that the U.S. would not join EEC or seek to set up an Atlantic Customs Union surrounded by a common tariff barrier that would discriminate against outsiders. On the other hand, outside nations wouldn't simply get a free ride as a result of U.S.-European tariff agreements.

Agricultural products. The Administration still is uncertain about how to handle agricultural products, which makes up about 30% of our exports to Western Europe. In this case, the problem isn't a common tariff, or the complicated mixture of protectionist devices now used by EEC nations. EEC is working out a system of "variable levies" to be used until a common price can be established for farm products.

To be sure, products that Europe does not produce in quantity—tobacco, cotton, soybeans—will still find a good market, and these make up an important slice of U.S. exports to Europe. For the rest, some officials say, the only hope lies in trying to negotiate global agreements commodity by commodity and ultimately working out common domestic agricultural policies.

Uncertainties. Even in the industrial area, many important questions still have not been decided.

It is just about certain, for example, that Kennedy will ask for the power to eliminate some tariff barriers between the U.S. and Europe. But it has not yet been decided for how broad a range of categories of traded goods this authority will be requested.

Kennedy's trade policy advisers are urging him to request "zero" authority for all categories of manufactured goods in which Europe and the U.S. together have 90% or more of the world market. This might affect as much as 50% of U.S. exports and imports of manufactured goods, by value. Some advisers are suggesting that the President be given the power to bargain tariffs down to zero on those types of finished products that are imported principally from Europe by the U.S. and vice versa.

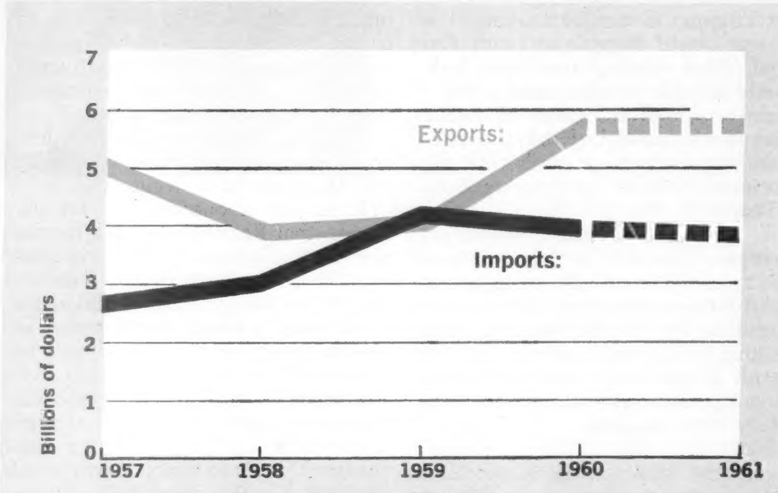
Assuming that some variant of this general approach is adopted, it still is very hard at this stage to pinpoint the types of products on which tariffs might be completely eliminated. But some categories almost certainly would be eligible. The most important are automobiles, trucks, buses, aircraft, metal-cutting machine tools, construction and mining machinery, a wide range of chemicals, many types of electrical equipment and appliances.

Certain to be excluded are most kinds of textiles. This industry is to be given special treatment as a result of the special advantage in the world market held by Japan and Hong Kong—and also because of the votes it commands in the U.S. Congress.

There are other big question marks, too. It's not certain whether the Administration will request power to cut tariffs 50% or less on products of which the U.S. and Europe are not the major traders. Also unsettled is the time over which tariff cuts would be carried out.

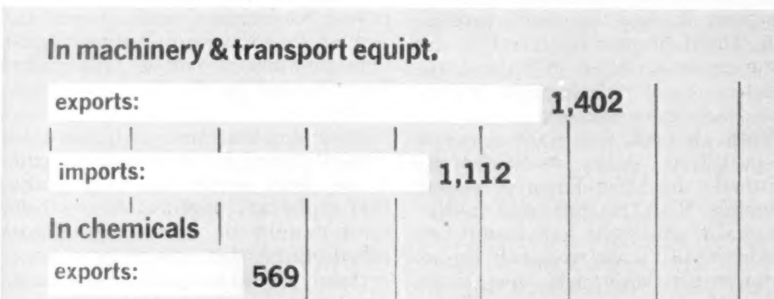
Bargaining method. Then, there's the question of how to handle a general across-the-board approach, assuming Congress goes along. Some of Kennedy's trade experts want the power to bargain on a basis of common lists of tariff categories. For example, cuts on chemicals by one side would be matched by cuts on chemicals by the other side, automo-

Our two-way trade with Europe



Note: Figures refer to 18 OECD countries, excluding Spain

Key product groups in 1960 [millions of dollars]



Data: GATT

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bile tariff concessions traded for reciprocal reductions on the same tariffs, and so on. There would be no attempt to swap, say, a chemical concession for one on cars.

Those who argue for this method believe it would result in a much more sweeping reduction of tariff barriers than the old system of trying to equate apples and oranges.

One thing already is certain: Whatever compromises may be made upon details, the Administration's new foreign trade program will be as radical as Cordell Hull's Reciprocal Trade Program was in its day. It will have profound economic, political, and military implications for the unity and organization of the West. And it is sure to provoke one of the longest and most bitter Congressional debates in history.

The debate begins. The great debate over trade policy, in fact, already has begun. The President, Under Secy. of State George Ball, and other Administration leaders are maintaining that a drastic demolition of tariff barriers can bring real benefits to the U. S. They say it would go a long way toward solving the balance-of-payments problem by boosting exports more than imports, and by reducing the incentive for U. S. companies to invest in Europe to get behind the European tariff wall.

Any jobs lost through increased import competition would be more than offset by higher employment in export industries, say Administration leaders. And those lost by higher imports would be in the least efficient and dynamic industries, they say. Their forced conversion to other lines of production would increase the over-all efficiency and productivity of the economy, standards of living, wages, employment, and the rest.

Protectionists, for their part, are crying havoc—predicting a flood of imports produced by cheap foreign labor that will wipe out American jobs wholesale.

Between these extremes, a wide range of opinion is being expressed. Some groups—the aluminum industry, for example—don't oppose drastic tariff reduction but feel that tariffs must be replaced by government-backed international marketing agreements to prevent destructive competition.

Many experts who support the general lines of the President's policy believe that U. S. industrial costs are so out of line with those in Europe and Japan that the adjustment of the U. S. economy to greatly increased international competition will be long and agonizing. Some of

these Kennedy supporters feel that free trade is essential to force U. S. industry to cut costs and become more competitive. Opponents of freer trade use the same cost comparisons to support their case.

Reservations. Among those who back the new policy, there are many who are not sanguine about its immediate effects upon the U.S. balance of payments.

One fear is that, owing to our higher costs, imports at first will rise faster than exports. Another fear is that freer trade will adversely affect the level of employment here.

From the moment the new policy is adopted, U. S. industries will start scrambling to cut costs to meet the new competition, and the main way to do this in the face of high U. S. wages is to speed up installation of labor-saving machinery. This will aggravate the problem of finding employment for new recruits to the labor force.

If—for political reasons—inflationary welfare, public works, and income subsidy schemes are used to handle increased unemployment, the balance-of-payments gap could widen dangerously.

Conclusions. Confronted with this wide range of fears and hopes, and anticipating a fierce battle in Congress, the Administration's trade and balance-of-payments specialists are working overtime to refine and strengthen their arguments. They are trying to work up more precise estimates of the probable effects of sweeping tariff reductions on our trade balance, on our over-all balance-of-payments position, and on our domestic employment.

Their tentative conclusions can be summed up as follows:

The direct impact of drastic tariff cuts on the U. S. trade balance very probably would not be great. A study of the effects of the GATT tariff reductions of 1947—the deepest so far—indicates that reducing tariffs to zero on half of U. S. dutiable imports and by 50% on the remainder of dutiable imports would lead to an increase in imports of about \$3-billion over a period of seven years. This would be an average annual increase of \$430-million.

An equivalent tariff cut by Europe probably would have a somewhat greater proportional impact. That's because European imports in the past have tended to increase more sharply in response to tariff cuts than has been the case for the U. S.

Omissions. This rough calculation, however, does not take account of the indirect economic effects here and abroad of a dramatic move toward free trade. It excludes changes

in investment patterns, prices, incomes, and production, and tries to measure only what the effect of a tariff reduction would be by itself if nothing else changed.

EEC's experience with radical tariff cutting shows that it spurs sharp boosts in investment, output, productivity, and trade. This suggests that the outcome would depend on whether the U. S. or Europe made the biggest gains over the first few years in technological innovations and in labor productivity.

Tariff levels. Only recently, the Administration was putting its case on still another ground—that the U. S. would stand to gain in bargaining tariffs down toward zero with Europe because the EEC common tariff on industrial products has been set higher than our average level.

This argument has been weakened greatly by the outcome of the current GATT tariff negotiations at Geneva. Now that EEC has decided to grant concessions of about 20% on a wide range of tariffs in exchange for much narrower concessions by the U. S., it looks as though the two sides of the Atlantic would begin bargaining under the proposed new U. S. trade legislation from about the same level of tariffs.

Cost comparisons. When it comes to cost comparisons, the important thing to watch is not the absolute level of any given point, but the trend. And the trend offers some reassurance. Recently, European wages have been rising faster than ours, productivity gains there have been slowing down, and incomes have been rising faster.

Then, too, Europe offers a much bigger market for U. S. materials and intermediate products than the U. S. offers to Europe.

European barriers. Opponents of the Administration's new trade policy argue that European barriers to imports other than tariffs—safety codes for electrical appliances, internal taxes, and the like—would continue to hamper U. S. exports once tariffs were reduced. This may be true, but such barriers are sure to be reduced gradually by pressures within the Common Market. Furthermore, the U. S. would insist upon including at least some of the non-tariff obstacles to trade in any far-reaching negotiations aimed at free trade.

Officials concede privately that they aren't much impressed with the President's argument to the National Assn. of Manufacturers that drastic reduction of tariffs between the U. S. and Europe would greatly reduce incentives for U. S. investment in Europe. All the evidence indicates that leaping tariff barriers is not the most powerful motive for investing abroad, coming well behind such considerations as comparative production costs and getting close to markets.

Net gains. Despite these reservations about the balance-of-payments case for freer trade that the President and others have advocated, most officials still see net over-all gains for the U. S. in the new approach. Here are additional points they make:

- While sweeping cuts in industrial tariffs would not buy big European concessions for U. S. agricultural exports, they probably at least would hold the door open for negotiating on commodity agreements and agricultural policies.
- The U. S. balance of payments would be bolstered if Japan and Latin America could be dealt into tariff negotiations under Most Favored Nation treatment. They both buy more from the U. S. than from Europe. If they could earn more from Europe to spend in the U. S., that would be all to the good.
- The most important argument, however, is essentially a political one. The real hope of balancing U. S. international payments without welshing on commitments to the military and economic defense of the free world lies in persuading Europe and Japan to pay their fair share of common defense and economic aid bills. This almost certainly cannot be done if the free world polarizes into two rival trade blocs, with Europe, Africa, and large parts of Asia in one camp, and the U. S., Canada, Latin America, and Japan in the other.

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International outlook BW

December 30, 1961

How allied are the Allies on the big issues?

The Atlantic Alliance goes into 1962 more divided than at any time since Suez. Deep Allied differences persist over approaches to the Berlin crisis, over NATO defense policy, and over the U. S.-U. N. role in the Congo.

Simmering tension in Southeast Asia, Dutch New Guinea, and Portuguese Angola could create new frictions between the U. S. and its Allies. Even hopes for freer trade and tighter economic cooperation are threatened by conflicting national interests.

Main conflict over Berlin

The Berlin crisis has produced the most publicized Allied split since the war, with Pres. de Gaulle bitterly opposed to any Western bid for negotiations with Moscow.

In the past, Allied conflicts usually have been thrashed out in private—with a united front presented to the Soviets. But at their Bermuda meeting last week, **Pres. Kennedy and Prime Minister Macmillan mapped out a new diplomatic approach to Moscow,** overriding de Gaulle's objections. They agreed in principle that if their ambassadors in Moscow found a basis for bargaining on Berlin, the U. S. and Britain would insist on beginning formal East-West negotiations.

But many U. S. officials now fear that Allied disagreements, plus the resulting stiffening of the Allied bargaining position, may have made negotiations with Moscow impossible.

Differences over NATO

There are differences, also, over NATO defense policy. Chancellor Adenauer is pushing for an independent NATO nuclear deterrent.

Provided the problems of joint control of the deterrent can be worked out, **Washington and London would go along—but only if de Gaulle will agree to merge his developing nuclear establishment.** So far, the French President shows no interest, despite the fact that his policy puts him at odds with Adenauer.

Disagreements over Katanga

The split between Washington and European capitals over the U. N.'s use of force in the Congo may disappear if Katanga's Pres. Moise Tshombe sticks by his agreement to accept the authority of the central government in Leopoldville.

This still is uncertain, since Tshombe signed under duress. If the agreement breaks down, the State Dept. would be ready to back new U. N. military action in Katanga.

In any event, new crises are almost certain to flare up in Portuguese Africa and New Guinea. These, also, are spots in which the long-standing differences between the U. S. and Europe on colonial questions are bound to emerge again. **That's assuming Kennedy doesn't overrule the State Dept. and put our relations with Europe ahead of State's bid for support of the Afro-Asian bloc in the U. N.**

Trade outlook: maybe sunnier

The outlook for Allied cooperation is brightest on the economic front as Britain moves to join the European Economic Community and the U. S. readies a new trade policy designed to strengthen the Atlantic partnership (page 58). **Even here there are clashing national interests that still could halt the process.**

International outlook Continued

France and West Germany have been deadlocked over EEC agricultural policy. If the deadlock isn't broken this weekend, the second stage of the Common Market could be delayed for a year and Britain's entry slowed up.

Assuming EEC hurdles its agricultural problem and British membership comes next year, **there's still a question of how soon the U.S. will be in position to bargain down EEC's common external tariff.** Europe's willingness to bargain, if and when we are ready, will be shaped partly by political factors—our attitude toward issues such as the Congo, for example.

Japan prepares to repay U. S. postwar debts

The U.S. and Japan will sign a final agreement next month on Japan's postwar debt settlement, thus removing a long-standing source of friction between Washington and Tokyo. The settlement covers some $2-billion stemming from U.S. aid to Japanese reconstruction.

This will end several years of negotiations. Last June, Japanese Foreign Minister Kosaka and U.S. Ambassador Reischauer agreed to the general principles of the debt settlement. If the final agreement is ratified by the U.S. Senate and the Japanese Diet, **Japan will pay $490-million over a period of 15 years and carry a 2½% annual interest rate on the unpaid balance.**

The debt settlement won't have much effect on either country's balance of payments. By the time the first installment comes due, Japan most likely will have passed through its current payments difficulties [BW Nov.18'61, p128].

On the U.S. side, the first Japanese installment won't come soon enough to help Washington through the U.S. payments troubles expected in 1962. Nor is it likely that Japan will be able any time soon to repay a large portion of its debt, as West Germany did earlier this year.

U. S. built steel mill for Pakistan

Pakistan has selected a group of U.S. companies to build its first major steel mill. Pullman, Inc., in association with Westinghouse Electric International Co. and Birdsboro Corp., organized the project through its subsidiaries, Swindell-Dressler Corp. and M. W. Kellogg Co.

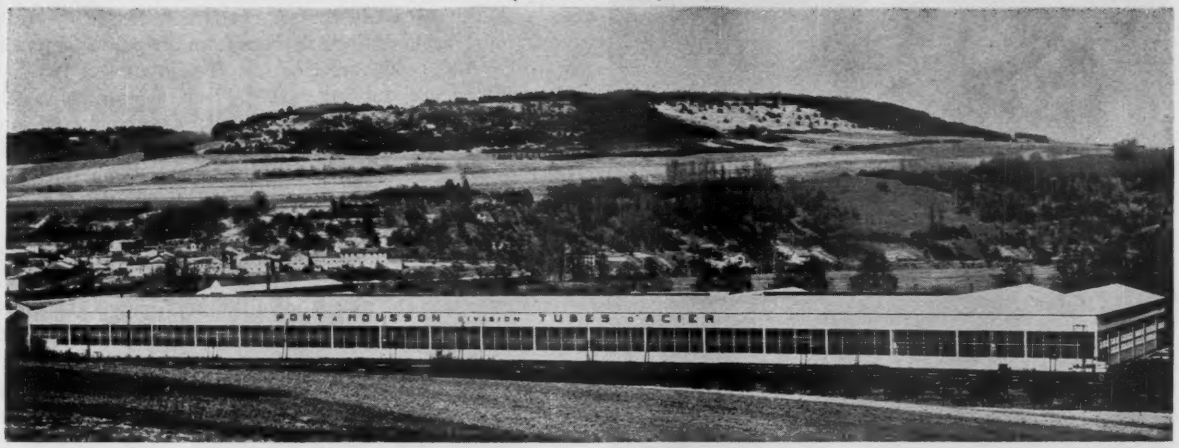
Scheduled production of the $136.5-million mill will be 350,000 tons per year. A private joint corporation will own and operate the mill. Present financing plans call for 30% equity and 70% loans. Pakistani investors and members of the U.S. group (under the name Swindell-Dressler & Associates) will supply most of the $40-million equity, with the balance to come from foreign investors.

Brazil's Goulart to come here for OAS meeting

Pres. Joao Goulart of Brazil is coming to Washington soon. Tentatively, he will arrive around Jan. 12, just before the scheduled meeting of the Organization of American States that will consider whether to break relations with Cuba.

The U.S. wants economic and diplomatic sanctions against Cuba. Goulart will probably plead for a more moderate approach.

Goulart will also discuss Brazil's economic program under the Alliance for Progress. He will offer a plan to cut down enough Brazilian coffee trees to take 6-million bags of coffee out of the glutted world market and reduce the nation's reliance on coffee export earnings. In return, he will ask for money to finance development plans for Brazil's impoverished northeast area.



General panorama of the Belleville mill of Pont-à-Mousson.

FRENCH STEEL PIPE INDUSTRY EXPANDS TO MEET NORTH AFRICAN NEEDS

The booming French steel pipe industry, already taking giant strides as the Sahara yields new oil potential, got new impetus in spite of the North African crisis.

Following the outbreak of violence in Bizerte in July, the Tunisian government cut the oil flow from Edjeleh. In response, French petroleum interests decided immediately to construct a new pipe line connecting the C.R.E.P.S. eastern Sahara fields with the existing pipe lines that run through Ohanet and Hassi-Messaoud, and thence to the Mediterranean.

The project had been on the drawing board, but scheduled for the indefinite future. The Tunisian flare-up, within the span of a few hours, brought the decision to get the work under way without delay.

Urgent orders were placed in early September with the Belleville Plant of the Société des Fonderies de Pont-à-Mousson, a major French pipe and tube manufacturer which at this time was supplying pipe for the eastern European pipeline linking Lavera to Strasbourg.

The firm's production team was asked if the short delivery dates for the huge order could be met. Back came the answer: "Can do!". This confident answer is typical of the production power and resources of the steadily growing French steel pipe industry. For example, the Belleville plant manufacturing welded pipe is but one division of the Société des Fonderies de Pont-à-Mousson. Internationally known, Pont-à-Mousson is a major holding company with extensive interests in coal mining, steel mill and cast iron pipe founderies, and directs pipe-laying and construction companies in 15 other countries. Its achievements in steel pipe and tube manufacture and construction has won it a special international recognition as a major supplier of facilities for volume transport of petroleum and gas by pipeline.

In the Common Market, PONT-A-MOUSSON controls the HADIR Company which manufactures small diameter welded pipes in Luxembourg; in Germany, the HALBERGER-HUTTE Company for oil pumps and compressors. In France serving the oil and gas fields, PONT-A-MOUSSON directs—through its subsidiary SIDELOR—, the seamless steel-pipe plant at Déville-les-Rouen, the most modern mill in Europe. It manufactures seamless steel pipes from ⅛" to 10¾" in all grades of steel specified by the American Petroleum Institute. Ductile iron pipe, used by a majority of French tanker fleets, were first manufactured in Europe by the PONT-A-MOUSSON group. In welded pipe the production line at the Société des Fonderies in Belleville makes tubes from 16 to 42", generally in X 52 steel, and also in other grades of steel if necessary.

Belleville also fills many special orders, for example, boiler pipes with diameters up to ten feet.

The plant at Déville-les-Rouen for seamless steel pipes is patterned after American prototypes. However, the Belleville mill follows the successful designs established in other Pont-à-Mousson plants in Europe.

The plant's modern Research Center recommended the selection of the special steel for the trans-Mediterranean pipeline. A major pipe-laying company of the group: EAU et ASSAINISSEMENT—SOCOMAN is closely studying applications in this particular field.

Of necessity, much production equipment on the pipe production line at Belleville is of original design. It employs a high degree of automation and the long steel plates are folded, curved into a "C" shape then pressed in the final "O" before welding with remarkable facility. The inner welding is controlled on a TV screen, filmed by camera lens at the welding head. Outside welding is done under the guidance of a light beam, also with automatic ease. Both ends of the pipe are cut with a blow torch and then hydrauli-

Precise quality control by the specific identity card which follows each tube through the production line and on which is noted specifications and control test data.

cally expanded into final shape. The final operation—end facing and bevelling—follows and a pipe is born.

The plant is equipped to apply various protective coatings, inside and outside, to customer specifications. Unusual mechanical and boiler shaping equipment are also part of the plant's facilities. Rigid inspections insures good quality control, and out of a 60-employee shift, for example, 18 persons are engaged in quality control operations. Inspectors wear green uniforms to distinguish them from the production men wearing blue. Total output of this 60-man crew is roughly one mile of steel tubes per shift. Each control point has several inspectors who select tubes at random from each run of 50 pipes. These samples undergo a rigorous pattern of tests designed to control tensile strength, welding efficiency and stress resulting from the folding and bending operations. These pipes are, of course, removed from the production run. On reaching the inspection area, the steel plate is subjected to a wide range of tests: ultrasonic, various and special measurements. The pipe is identified, marked and then gets its "identification card" which stays with it right up to the finishing point.

Following the welding operation, the pipe again undergoes ultra-sonic examination. Even slight faults call for X-Ray and eventual return for semi-automatic repair. The final test during production is the hydrostatic pressure control, following expansion of the pipe according to A.P.I. specifications. M. PIERSON, Plant Superintendent states that "It is barely possible that a defective pipe might leave our plant but hardly probable."

Even after the pipe is finished, another series of inspection operations begins: the ultra-sonic welding test, using still more sensitive testing equipment, then systematic X-Rays for *all* tubes and, finally, special testing of doubtful spots disclosed during ultra-sonic tests. Dimensional inspection also takes place before delivery of the pipe.

"As a matter of fact, the official A.P.I. certificate which hangs in my office is a continuing challenge to us not only to meet the basic approved A.P.I. standards, but also to surpass them in many cases".

These strict control standards have paid off, and have won the respect of foreign competitors. "American and Russian Technicians who visited our plant have been greatly impressed by the extent and quality of our controls" adds Plant Manager, Monsieur SOGNET.

Mr. CLEMENTZ, a director of the SOCIETE des FONDERIES de PONT-A-MOUSSON said also: "We try to keep inspection measures at peak efficiency. Perhaps as a result our pipes are found on all lines constructed in the Sahara and in France since 1957, when our production first started. Also, and this is equally important, we keep our prices competitive.

As an important link in the group of Companies involved in pipe work productions under the PONT-A-MOUSSON label, the welded pipe Plant at Belleville should play a major role in the petroleum and gas industry. Indeed we are awaiting a considerable expansion of pipe transportations especially in the oil, gas and raw and finished product categories."

New testing methods utilizing advanced ultra-sonic techniques are applied for the second time to welding points prior to final X-Ray control.

How labor fares under EEC

So far, Common Market's impact has been overshadowed by Europe's broad prosperity

As the six-nation European Economic Community develops—bringing Britain and other countries into its fold and expanding economically (page 58)—shifts in the labor picture gradually will take place. For instance, EEC's provisions call for a free flow of workers across national boundaries, and the harmonization of wages and social welfare systems among Common Market members.

So far in its three years of operating, however, EEC has had only a minor impact on labor. Other factors such as Europe's general prosperity have been more important in shaping the labor picture.

Labor mobility. Take the case of labor mobility. In West Germany, there are some 200,000 Italian workers holding down jobs. (Italy, of course, is an EEC member.) But there also are some 40,000 workers from Greece, only an associate member of EEC, and about 48,000 workers from Spain, a country with no EEC connections at all.

The shape of '62

The real magnets drawing these workers to Germany are the labor shortage and the rising wage level. In some industries, there are six openings for every unemployed worker. And Germany's wages are—along with Belgium's—the highest on the Continent. The formation of EEC has merely eased the movement from one country to another.

However, European officials still

In West Germany, where factories are going full tilt, high wages and a labor shortage attract workers from other nations. EEC encourages labor mobility.

are somewhat skeptical about any large-scale reshuffling of workers within the EEC. They point to the experience of the European Coal & Steel Community, which has favored labor mobility since its formation in 1952. Miners and steelworkers, by and large, have refused to move around. Apparently, the only Europeans who can be persuaded to cross boundaries to seek work are those who face a special combination of circumstances at home: lack of skills, deep poverty, skimpy social services, perhaps a tradition of migrating in a certain area or among a certain group.

This situation may well change. But no one is predicting how much or how quickly.

Standardizing wages. No timetable exists for another long-range aim of the Common Market—complete harmonization of wages and social welfare systems. Under the Rome treaties, the member states pledge to cooperate in achieving this end, but retain complete autonomy over their own wages and fringes provided that their labor costs do not distort competitive conditions.

The first EEC survey of labor costs—about to be completed—finds that these differences aren't large enough to have a distorting effect. In addition, wages were found to vary more strikingly between different regions of one country—between southern and northern Italy, for instance—than between some countries.

Leveling trend. A leveling trend is under way, however, sometimes in unexpected places. Plans for a Sicilian land reform were reportedly scrapped because the local population—whose friends and relatives were working in West Germany—had revised upward their standards for the minimum size of farm lots. The size originally planned was too small to support a family decently, the newly enlightened Sicilians decided.

Pressures for raising standards toward the level of the highest nation in each category will certainly increase as tariffs and other protective devices come down. France, with its 40-hour week, has already begun pushing for similar work weeks elsewhere.

But the collective labor contract is a long way off. All European labor federations agree that the time isn't ripe and won't be for many years.

Work practices. Attempts to harmonize work practices also receive fairly short shrift. British union research teams visited Brussels recently to seek agreement on job-maintained restrictions (i.e., the

number of bricks layable per day), but got nowhere despite the existence of similar but less restrictive rules in German unions. The Continent's labor shortage and emphasis on maximizing production tend to make this kind of restriction impractical.

The first workers to benefit directly from the EEC agreement will probably be women. The treaty calls for equal pay for equal work for men and women. France has prodded fellow members on this point during recent talks. And the Dutch government—which is extremely influential in labor-management relations—has served notice on Dutch industry that it wants women's pay to come up to at least 85% of men's at the next contract renewals, due January to March.

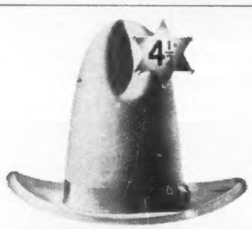
Unions go along. On the whole, European unions like the Common Market concept, although they're miffed at the absence of labor representation on the Executive Commission. They regard the Common Market as a practical instrument for eventually pushing up wages in lower-level countries—Italy primarily. And under present conditions, the unions do not oppose increased labor mobility. There's little danger of unemployment in view of Europe's economic boom. And the foreign workers do not depress local standards since they are hired at the local rates.

It's the employers who are apt to pay dearly for foreign labor—although grateful to get it. West German industrialists report that training, housing construction, two-way transportation, and interpreters add a considerable sum to the labor bill. There are difficult social problems, too.

In any case, the prospects for 1962 are, generally, a repetition of the past few years: a tight labor market and rising wages almost everywhere.

Italy. Italy is a special case. Wages there are among the lowest in the Common Market. Even in a booming northern city like Milan, the average wage is 30% to 40% below the figure the government statistics office has set as the minimum necessary for a family of four.

Union pressure for higher wages, a normal result of increasing prosperity, is weakened by the influx of unskilled labor from southern Italy. According to CISL (the Christian Democratic Federation), the new workers' unfamiliarity with both industrial techniques and the concept of labor solidarity handicaps the unions' efforts to raise standards to Common Market levels. **End**



In labor

BW

Auto workers expected to reject Studebaker-Packard contract offer

A company demand for a 14-min. cut in work relief time per shift may spark a strike at Studebaker-Packard Corp., the only major auto producer that hasn't signed a new contract with the United Auto Workers. S-P's employees at South Bend, Ind., are expected to vote against acceptance of company terms Jan. 7—after they collect holiday pay.

Formal negotiations were broken off Dec. 17, with S-P standing firm on a final offer that includes a formula linking annual-improvement-factor raises to car sales. **S-P also proposed to add to its production time by reducing paid—and unproductive—relief time from 39 to 25 min. each shift, about the same time given employees of Big Three companies in their new contracts.**

Studebaker-Packard, which has reported a $10-million loss in the first three quarters of 1961, said it can only hope to retain its present 1.5% of the car market by being competitive "in every respect"—including on work time—with the Big Three.

Ray Berndt, UAW regional director and chief negotiator with S-P, is urging workers to vote against the company's terms; he says that the union is willing to give Studebaker-Packard a below-pattern settlement, but the terms offered would mean a net loss of 1¢ an hour by the union's reckoning.

While the annual improvement factor and cost-of-living clauses would be retained, the first year AIF raise (2½%, with a minimum 6¢) would be cut 1½¢ an hour to offset increased pension costs, and **the company would cut AIF raises by 2¢ an hour in the second and third years if it does not sell 135,000 cars in 1962 and 150,000 in 1963.** S-P hasn't had a 150,000-car year since 1959; this year so far it has sold fewer than 69,000.

UAW says the remaining AIF raises over the three-year contract term would be offset by the money value of the lost relief time, roughly 3% of the work day, and by cuts in shift premium pay and vacation pay.

AFL-CIO gets New York teachers' vote, may lure in other white collarites

The American Federation of Teachers has won the biggest collective bargaining election since the United Auto Workers took Ford's River Rouge plant in 1941—and by its victory has given strong encouragement to AFL-CIO hopes of organizing white-collar workers.

The AFT won representation rights for 43,000 New York City school teachers by better than 2-to-1 over a group that stressed its professional status.

Union officials offered several reasons for the result. New York's salary schedule—$4,800 to $9,450—is lower than those in many surrounding communities and lower than the wages earned by many of the teachers' blue-collared neighbors. Classes are huge, schools understaffed, the grievance system creaky, and teachers permanently indignant about the nonprofessional chores they must perform.

For the 60,000-member AFT, winning the country's largest teaching staff opened new vistas. Campaigns picked up steam from Los Angeles to Newark. In New York itself, the union planned to file for the school system's psychologists, social workers, and secretaries, and for teachers at Brooklyn Community College.

For AFL-CIO, the vistas were even wider. "How long will a file clerk go on thinking a union is below her dignity," asked an official, "when the teacher next door belongs?"

Fuller makes things move in the process industries

The flow of profits in the process industries depends increasingly upon the physical flow of dry bulk materials from place to place: from cars, trucks, ships and barges, into storage and out, through a complexity of in-plant operations.

This movement, of itself, adds nothing to product value—yet can cost as much as the materials themselves. Cutting these handling costs—through the application of *air*—is a major Fuller function. Pneumatic conveyors move materials fast. They have a minimum of moving parts. They're closed-in to keep both plant and product cleaner. They lend themselves readily to remote and push-button control. Through its integration of facilities, Fuller engineers, designs, produces and erects pneumatic conveyor systems to handle dry pulverized or granular materials from alum to zinc oxide, fly ash to green coffee beans.

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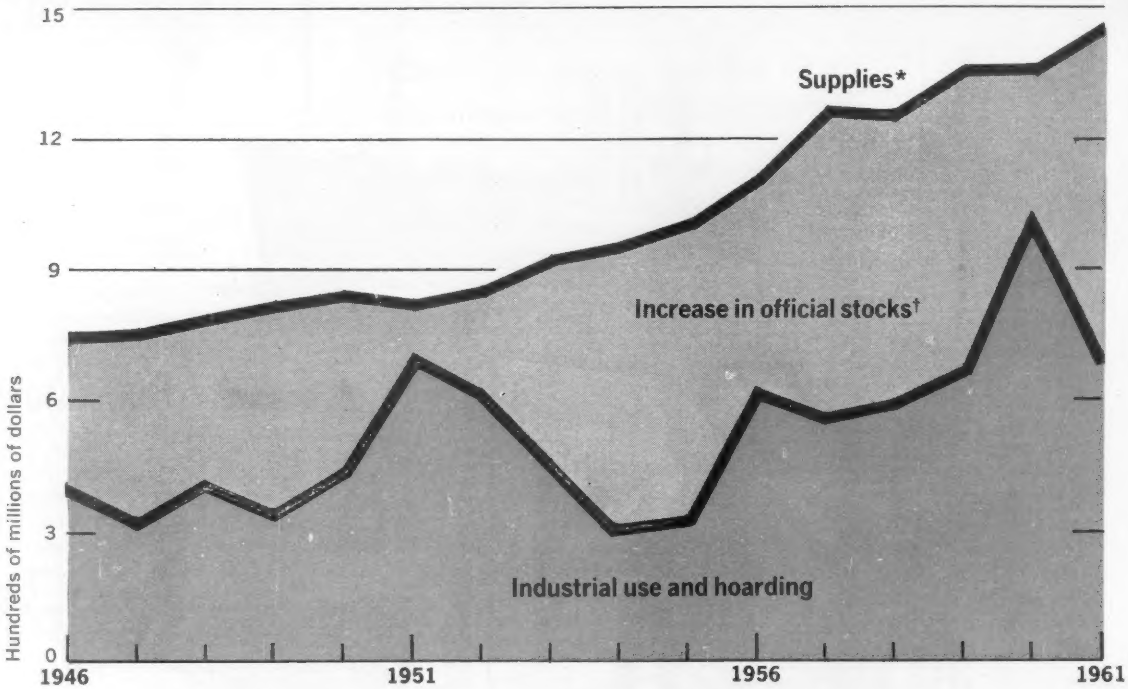
961

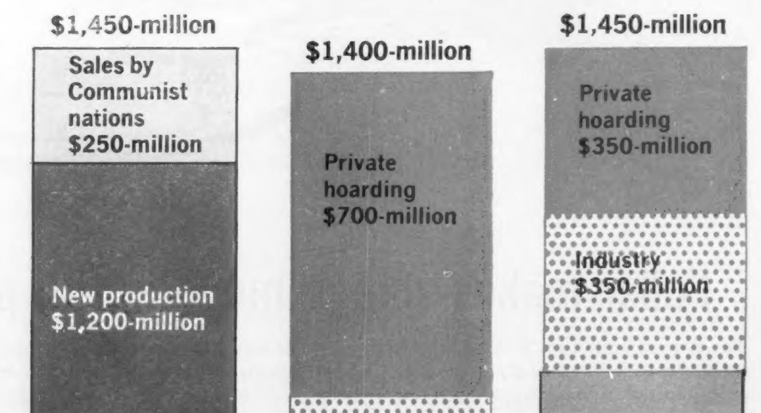
Gold attracts the hoarders



Data: First National City Bank of New York

* includes reported Russian sales
† excluding U.S.S.R. and Red-bloc countries

Sources and uses of gold



Industry and central banks absorb only a portion of the new gold supplied each year from production and sales by Communist nations. The remainder goes to private hoarders or to speculators who bet on a dollar revaluation

Data: Business Week estimates

Half billion in gold hoarding?

That's the 1961 estimate for supplies that somehow found their way into private hands, for hoarding or for use for speculation. It makes trouble for central bankers

The irresistible lure of gold, which drove the conquistadors into the jungles of Latin America and stampeded prospectors into the frozen Yukon from all over the world, is again causing serious concern. The reason: Hoarding of gold by individuals (chart) is a big factor in the drain on the U. S. gold stock.

Through most of the 1950s, the U. S. lost gold—to foreign central banks and to private hoarders. At the end of 1949, the U. S. gold stock amounted to $24.5-billion. Today the total is $16.9-billion—a loss of more than $7.5-billion. Much of this has gone into foreign central banks, which traditionally hold a portion of their reserves in gold. But an increasing amount has somehow got into the hands of private individuals—hoarders who fear that no currency is safe and speculators who feel that the dollar will be devalued. U. S. citizens cannot legally hold gold, but in many parts of the world no such strictures apply and flight of gold is the final resort of anyone who mistrusts currency.

Private hoarding took a big jump in 1960, largely because of speculators who drove the price of gold in London's free market up to $40 an oz. It is still very much in evidence. This year, in fact, was the first since 1944 when the U. S. suffered a physical loss of gold.

Outflow. Normally, our gold losses have simply involved a transfer from the official U. S. stock to an "earmarked" account of a foreign central bank in the vaults of New York's Federal Reserve Bank. But this year the U. S. shipped more than $600-million abroad.

Some foreign authorities may have been motivated by fears of a nuclear war that would destroy New York. Other shipments may have gone to some newly independent nations that want to hold their gold at home. Fed officials refuse to comment, but there are indications that shipments were also needed to meet the demands of speculators and hoarders who were buying on the world's free markets, particularly in London.

Hard to trace. No one knows just how much gold goes into private hands or exactly where it comes from. So the only way to estimate private holdings is by comparing new gold supplies—from mines in free world countries and from sales by Communist nations—with the amounts in official holdings. If there is an apparent surplus of new gold, it indicates how much gold is going into private hands.

As the chart at left shows, increases in the amount of gold accounted for by official holdings or by industrial users is much less than the amount made available from new production or from sales by the Soviet bloc. In the early 1950s, gold disappeared into private stocks at an annual rate of about $400-million. The rate jumped to at least $700-million in 1960, the year of the London "gold rush." This year, it is probably below $500-million, although some estimates put it higher.

Franz Pick, who has been keeping his own tabs on gold hoarding, thinks that at least $1.1-billion of gold went into private hands last year, and he estimates that another $800-million was lost in 1961. First National City Bank of New York puts the 1960 figure at about $1-billion and the 1961 total at $700-million. But it includes in its calculations the gold used by industry, so its figures are in line with the more conservative estimates.

Index of fear. According to the annual gold review in Citibank's January letter, the amount of gold going into private hands is "a kind of index of inflationary fears." About half the new supply of gold went into private hands during the first nine months of 1961, compared with three-quarters of it during 1960. Thus, it says, private hoarding has lessened.

The bank notes that there have been two periods of heavy demand that coincided with inflationary pressures and uncertainties about currencies. The first was in 1951-52, during the Korean War; the second was in 1959-60.

This second wave was accompanied by doubts about both the pound and the dollar, about crises in Algeria and the Congo, and about the heightening of cold war tensions. Some of these factors are still making themselves felt, so that the decline in private demand for gold in 1961 may well prove temporary.

Faith in dollar. Citibank comments that the improvement in 1961 was due to the Administration's pledge that the dollar would not be devalued, as well as to the improvement in the deficit in the balance of payments, particularly 1961's first half. In addition, there were undoubtedly sales of gold by U. S. citizens who could no longer legally hold gold abroad after June 1, 1961.

But demand from hoarders, even at a level below that of 1960, made inroads into the U. S. gold stock. The review points out that free world gold output amounted to about $1.2-billion in 1961, with part of it going to "Continental European countries using surplus dollars acquired as a consequence of the deficit in the U. S. balance of payments."

Sales by the Soviet bloc are expected to reach $250-million, which has been the annual average over the past few years. Red China was a seller of gold for the first time in many years, mainly to pay for imports of wheat.

Where it went. Thus, a total of about $1.5-billion in new gold was available this year. About half of this went to official holdings—central banks, governments, the International Monetary Fund—and the rest into private hands.

But there were shifts in official holdings and though U. S. gold was sold to foreign authorities, some of it later went to individuals. In London, the Bank of England has a practice of feeding gold into the market to moderate price fluctuations. But it could not continue to do this if it meant a big drop in its own reserves.

The fact is that central bankers, like private hoarders, look upon gold as the ultimate standard of value. And they have been building up the

proportion of gold in their reserves from the low levels that prevailed after World War II. The Bank of England normally holds a very high proportion of gold, so that it would not countenance large-scale sales to the market unless it could replenish the gold it sells. This has been accomplished through purchases in the U. S.

According to the Citibank study, "arrangements enabling the Bank to replenish in the U. S. metal it sells on the London market" have kept the price of gold under control.

Other markets. Although London is by far the biggest free gold market, individuals can buy gold elsewhere, too. Macao is the major distribution center for the Far East; it caters to individuals who fear revolutions or civil war. India, where gold hoarding is traditional, gets most of its supply from Middle East markets—Beirut, Kuwait, Bahrein, and Teheran. This year, demand by Egyptian citizens whose properties have been nationalized by Pres. Nasser has been increasing.

A good deal of gold changes hands, legally or illegally, in Europe. And a lively market for gold coins exists in Switzerland and France. Coins usually command a premium over their face value; the U. S. $20 gold piece, for example, was recently quoted at 28% over face.

London sources say that most of the buying in 1961 was from the Middle East, the Far East, and Latin America. There are reports of fairly heavy Belgian buying because of the Congo crisis.

Who buys gold. The identity of buyers is never disclosed, but London brokers say that they supply a wide cross-section of individuals. One big buyer in recent years was the Trujillo family, which reportedly smuggled some $90-million in gold out of the Dominican Republic after Gen. Trujillo was assassinated.

Some gold experts regard with suspicion the big increase in industrial use of gold. They consider this a form of hoarding or speculating by corporations. Citibank estimates net consumption for domestic industrial and artistic use amounted to $105-million in 1960, compared with $50-million in 1958. But London gold merchants say they have seen no indication of unusual industrial buying.

The Bank of England regards any industrial buying beyond current needs as hoarding, and it formerly had a strict licensing system to govern buying by companies. Policing is now in the hands of the merchants, who are expected to notify the bank if industrial consumers are buying more than they need. **End**

Wall Street talks . . .

about underwriter for 21 Brands, Kratter's withdrawal of debenture offering, life insurance holding companies, growth stock funds, Webb & Knapp financing

The suspense over who would underwrite 21 Brands, Inc., which handles U. S. sales of Ballantine Scotch, has ended. The issue, one that was considered a plum by underwriters, has gone to A. C. Allyn & Co. and Hornblower & Weeks. From all accounts, the issue's joint managers plan a broad distribution of the shares.

Kratter Corp.'s withdrawal of its proposed $100-million debenture offering is disturbing some other real estate companies that planned to raise new funds. In dropping the issue, Marvin Kratter—who barnstormed around the country to drum up interest in the offering—referred to recent changes in the company's property portfolio, the company's desire for up-to-date financial figures (the registration was filed in September), and "untimely" newspaper articles. In these a spokesman for Blair & Co., acting as agents in the offering, was quoted as saying that there would be subscriptions for about half the debentures. Analysts note, however, that Kratter needed the additional funds to keep up its fast-paced investment program; they say this week's withdrawal conceivably could hurt the company's cash flow, part of which goes into dividend payments, unless the company raises new funds fairly soon.

The structure of the life insurance industry could be changed if a number of life companies go through with their studies to form holding companies. The holding companies would: (1) provide one-stop insurance facilities in states that now prohibit life companies from selling fire and casualty policies; (2) permit the sale of the holding company securities in New York, which now bans stock trading of any life insurance company not licensed in the state; and (3) act as an umbrella for a mutual fund organization.

F. Eberstadt & Co., which built itself a prominent position with its $300-million Chemical Fund, Inc., is close to starting a new, more broadly based fund that is not tied to any one industry.

Managers of growth stock funds are finding it almost impossible to match earlier performance records—and they think their problem may be intensified next year because of the high price-earnings multiples now applying to most stocks. But even those funds that have the flexibility of selling short—such as Revere Fund and Oppenheimer Fund—still haven't taken that step. Most of their new money is going into existing portfolio positions.

James Hughes of Auchincloss, Parker & Redpath, a veteran Wall Street technician, is growing more concerned about stock prices. His big worry is that, while the Dow-Jones average is struggling up, the breadth index—measuring all listed stocks—is up only slightly from its September low and significantly below its May high. He thinks the crucial point will come if the Dow makes a new high without confirmation from the breadth index. This, he says, would be bearish.

Some brokers feel that the real keys to the profits in the $43-million Webb & Knapp financing (page 19) are the stock options that were handed out to the Philip Hill group as a sweetener. Two of the options have been disclosed publicly: (1) for 270,000 shares of Gulf States Land & Industries, Inc., now held by W&K; and (2) for 500,000 W&K shares now held by William Zeckendorf, Sr. Brokers say that the real kicker is in the W&K option, which reportedly carries a price of less than 50¢ a share (the stock is now over $2).

Philips' Incandescent Lamp Works, the European electronics giant, is clearing the way for application for listing on the New York Stock Exchange. The stock traded at $137 this week, down from its 1960-61 high of $180. Shareholders will vote in early January on changing the par value of the company's stock.

Merits of stocks vs. bonds weighed by two experts: verdict is split

Two of Wall Street's top analysts discussed the merits of common stock investments this week before the annual convention of the American Statistical Assn. They came up with different conclusions:

Thurston P. Blodgett, vice-president of Tri-Continental Corp., the nation's largest closed end investment company, argued that common stock may have been the answer to investment problems in the past decade—but might not be the best investment medium in the future. As Blodgett sees it, the reversal in bond and stock yields over the past 15 years poses a challenge to the investor.

The choice, says Blodgett, is between what you can secure in income from bonds over, say, the next five years and what common stocks must do to bring the same results after taxes—plus some additional gain to justify the greater risk in commons.

According to Blodgett, in many cases a municipal bond yielding 4% appears safer—and holds more profit potential—than investing in equities at their present high levels.

Nicholas Molodovsky of White, Weld & Co., a big Wall Street investment firm, agrees that prices are historically high, but thinks that a judicial increase in equity holdings is in order. He feels that low stock yields should not, by themselves, deter investment.

Molodovsky says there has been a telling impact on supply and demand relations, with the growing role of institutional investors. **He says this endows equities with an unprecedented attraction. If an investment is for a long pull, he thinks "any initial small yield in stocks is bound to exceed the return from fixed interest investments so long as earnings and dividends will grow even at a very slow rate."**

Bank regulators act to thwart threatened rate war over savings

Two government agencies this week moved to head off a rate war that threatens to break out among banking institutions as a result of changes in the Federal Reserve's regulations governing interest payments on savings deposits.

New York's Banking Dept. permitted mutual savings banks to pay the same rate as the Fed laid down for commercial banks three weeks ago. But it said the new 4% on deposits of a year or longer couldn't be paid retroactively as allowed by the Fed. And the state's ruling, not the Fed's, will apply to state-chartered commercial banks.

In addition, **the Federal Home Loan Bank Board authorized federally chartered savings and loan associations to pay quarterly, instead of semi-annual, dividends,** and to make payments on funds withdrawn during a dividend period. The action was apparently intended to ward off higher dividends that might serve to increase mortgage rates.

Meanwhile, banks continued to lift rates under the new Fed rules, which permit payments of 3½% on regular savings deposits and 4% on those held a year or longer. **Franklin National Bank of Long Island countered by offering certificates of deposit,** in units of $100 to $10,000, that will double their value in 20 years, which is equivalent to an annual rate of 3½% and despite pleas from the FHLBB to hold the line on dividends, **most large S&Ls in Florida increased their dividends to 4¼% from 4%.**

ASE appoints special group to act on recommendations by Levy committee

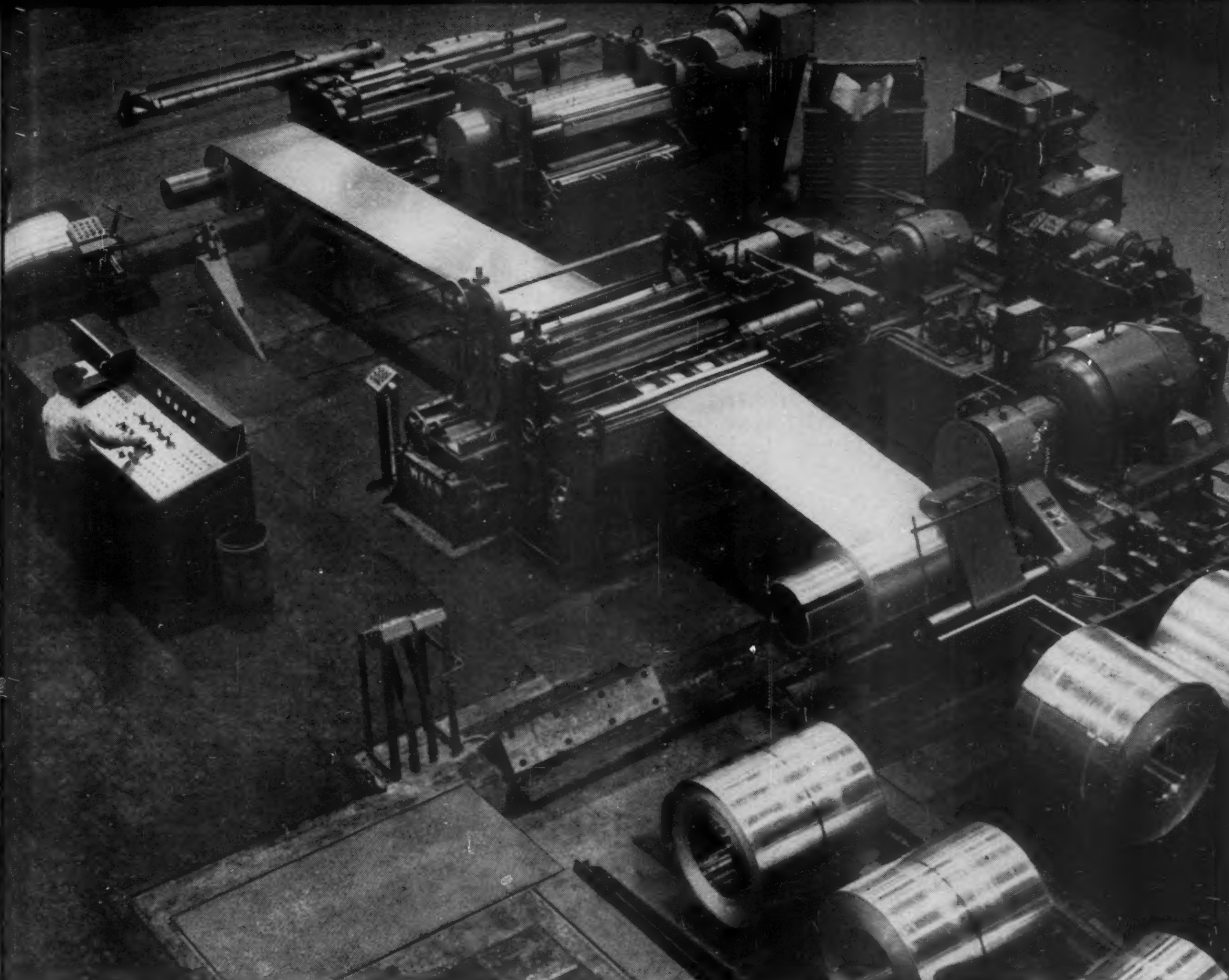
The American Stock Exchange this week appointed a special advisory committee to study recommendations made by the Levy committee, which was set up to investigate ways of revamping ASE. The new committee also will prepare constitutional amendments. The Levy group (headed by Gustave Levy of Goldman, Sachs & Co.) called for sweeping reform in an interim report, proposing strengthening the executive administration, broadening representation of member firms on the board of governors, and lessening the influence of individual governors.

ASE members have reacted favorably to most of the provisions although the effect would be to lessen the ASE's club-like atmosphere.

For example, **the committee seeks to restrict the number of specialists on the 32-man board to six.** At present, 11 specialists are governors. It also would limit the number of terms a governor could serve consecutively to two three-year terms. And it urges elimination of the board's present nine standing committees of exchange governors; instead **it calls for creation of a single steering committee, which would put more power into the president's hands.**

Wall Street was warned this week on new issue underwritings—an area under intensive investigation by the Securities & Exchange Commission. **The National Assn. of Securities Dealers, the policeman for the industry, announced a broad probe** to determine if underwriters have been making undue profits in new issues.

The New York Stock Exchange followed up with a circular to member firms setting forth some "rules of thumb" to keep them out of trouble with the SEC. **It warned that underwriters could find themselves faced with possible charges of market manipulation** if simultaneously they acted as directors of the company whose shares they sold and traded the stock in the market. In addition, it reminded members that there is a strict rule against funneling shares to insiders on new issues. It also warned against tie-in sales —where an individual is given shares if he agrees to buy more stock in the open market.



GOVERNMENT

Battle over fighter planes

Defense Dept. is moving ahead with plans to develop multi-purpose military planes. But some of the proposals have touched off furious interservice feuding

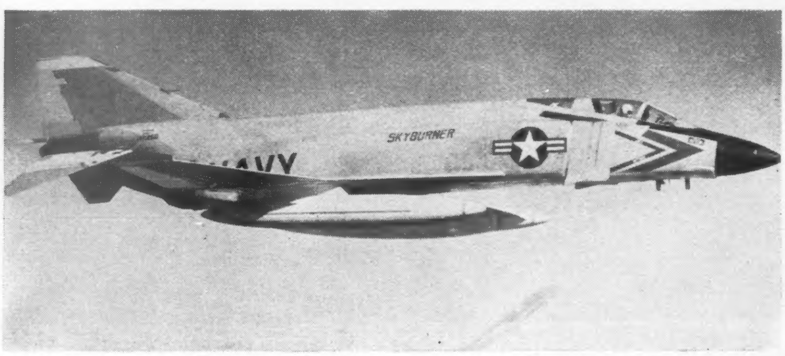
The Air Force and Navy fly well over a dozen types of fighter planes to perform the varied missions of tactical warfare. To Defense Secy. Robert S. McNamara, this proliferation of fighter aircraft represents an excessive budgetary burden. It forces the services to maintain large inventories of non-interchangeable spare parts, complicates training of pilots and mechanics, and boosts unit production costs.

Ever since his arrival at the Pentagon last year, McNamara has been trying to get the Air Force and Navy to reduce the types of fighter planes on their shopping lists. He wants the two services to concentrate their current procurement as much as possible on the same aircraft and to develop a single, biservice, multipurpose fighter plane for use in the late 1960s.

Expected actions. Some signs of McNamara's efforts are beginning to show up:

- The new defense budget is expected to earmark funds to the Air Force for large-scale procurement of McDonnell's F4H, the Navy's newest carrier-based fighter plane (picture), which holds the world's speed record at 1,606 mph. at 45,000-ft. altitude. As a result, starting July 1, the Air Force will trim production of Republic's F-105 well below the 238-plane schedule originally planned for by 1963.

- The Defense Dept. plans to award a contract in February for development of the TFX fighter plane, planned successor to both the F4H and the F-105, to be ready for biservice use in about five years. One Washington official says that the contract will mean "the biggest military aircraft order since World War II."



Navy's F4H jet holds speed record of 1,606 mph. at an altitude of 45,000 ft. Air Force seeks authority to buy the plane and modify it for its own use.

Tentative plans call for production of 876 planes with total costs running into the billions. Contract proposals from just about every major aircraft company are now being evaluated at Wright-Patterson Air Force Base, Dayton, Ohio.

- Dissatisfied over the TFX's potential for close-in support of ground troops, the Navy—supported by the Army—is pushing for a project to develop a slower, smaller, and less costly VAX airplane. The Air Force argues that such a plane is unnecessary, that current models can handle the close-in, ground-support mission. Defense officials say the VAX project is "still nebulous," but that proposals from industry may be sought this summer when the services have resolved some of their differences.

Interservice feuding. In stepping into the tactical fighter issue, McNamara has touched off a serious interservice squabble and has been forced to modify some of his objectives. The controversy is marked by bitter interservice feuds over roles and missions, by important differences in strategic and tactical concepts, and by furious politicking by the contractors.

In terms of operational concepts, for instance, the services have differing requirements for tactical fighter planes. The Navy has a defensive strategy for protection of its mobile fleet. Its F4H, for example, is designed primarily for air-to-air combat to knock down planes that are attacking surface vessels.

For the tactical mission of providing close-in support of ground troops, it uses cheaper, lower-performance planes that act as an umbrella over a small-sized beachhead.

The Air Force views its tactical mission on a broader front. If enemy air forces can be whipped before they approach the battle area, Air Force strategists say, there's less need for massive numbers of U.S. fighters to support ground troops. So it wants high-performance fighter planes that can roam long distances to clobber enemy airfields and fuel dumps far from the battlefield and that can bomb railroads, bridges, and troop formations behind the lines. The Air Force believes one versatile fighter can handle both the bombing and the more limited close-support missions.

Special plane sought. The Army supports the Navy's demand for specially designed and lower-priced close-support fighters. Although recognizing the role of high-performance fighters to bomb behind the lines, it fears that overemphasis on this type of plane for atomic striking missions does not leave the Air Force enough funds to buy the cheaper close-support types.

As an interim plane for the close-in, ground-support mission, McNamara directed the Air Force to buy the Navy's subsonic Douglas A4D next year. This is a low-price plane (about $750,000 each) that has been operational about five years.

The Air Force objected, however, saying the A4D is obsolescent and inadequate to handle behind-the-line bombing and air-superiority missions. Current Air Force policy stresses single, multipurpose models. The Air Force asked authority to buy, instead, the Navy's F4H, which is superior to the Air Force's F-105 in rate of climb, altitude, speed, and ability to use short runways.

Air Force proposal. The Air Force claimed it would be better to modify the Navy's F4H for Air Force use than to buy the A4D. The Navy considers the F4H a multipurpose airplane. But, in Pentagon lingo, it is "optimized" for aerial interception missions rather than for tactical bombing.

Production costs of the F4H and the F-105 are almost comparable—the F-105 slightly under $2-million and the F4H slightly higher.

The Air Force presumably will install the F-105's fire control system on the F4H. The F-105 is designed primarily for air-to-ground missions Modification of the Navy planes will cost close to $500,000 a plane. General Electric and North American Aviation's Autonetics Div. make the components of the F-105 fire control system. Raytheon and Westinghouse are Navy contractors for the F4H's system.

Exact size of the Air Force's F4H production run has yet to be determined. But you get an idea of the magnitude from the Air Force's earlier two-year plan to buy 600 more Republic F-105s, now a competitive model.

Multipurpose aircraft. The original purpose of the TFX project—to develop a single versatile plane—is being watered down. In addition to branching out into the cheaper, more specialized VAX aircraft, the Defense Dept. will also allow the Navy to come up with a modified version of the TFX—shortening the plane's nose to take up less space on crowded carrier decks and equipping it with the Navy's own advanced fire control system.

Still, the TFX will represent what ordinarily would have been at least four different aircraft development projects. And the plane will mesh the carrier-based characteristics of Navy fighters (strong airframes and landing gears to absorb landings on carrier decks, folding wings, and corrosion-resistant fuselages) with Air Force designs. It will be a twin-engine, turbofan-powered plane capable of Mach 2.5 speeds that can operate from short, primitively prepared airfields or carrier decks. The TFX will have a two-man crew and a range up to 3,600 mi. **End**

Air Force wins fight to eliminate one step from Dyna-Soar development

The Air Force has won a long battle with the Defense Dept. to revamp its program for Dyna-Soar, the seven-ton delta-winged manned spacecraft that will make controlled horizontal landings.

Originally, Dyna-Soar flight testing was to be done in three phases: test drops from a B-52 bomber plane, suborbital launchings, and orbital flight. **The new plan scraps the suborbital flights, and will move directly from the B-52 test drops to orbital flight.** Air Force officials expect to cut at least one year from the program, achieving orbital flight by early 1965.

The change will result in cancellation of a $20.8-million contract with Martin-Marietta Corp. for production of Titan 2 rocket boosters needed in suborbital flights and a smaller contract with Aerojet-General Corp. for engines.

The direct orbital flights will require a more powerful booster than Titan 2. Martin will receive a new contract to develop a modified booster, the Titan 3, which will have two new solid-fueled rockets strapped to its sides, producing 2.6-million lb. of thrust. **Bids will be sought shortly for development of the solid-propellant rockets.**

Expenditures for Dyna-Soar this year will continue at the $100-million level planned earlier. The Administration is sticking to its decision not to spend the extra $85.8-million voted by Congress to speed up Dyna-Soar. Boeing Co. is the project's prime contractor.

Head of Stanford atom smasher project is replaced by his deputy

Development of the largest and most expensive research tool ever built in the U. S.—the $114-million, 2-mi.-long linear accelerator for smashing atoms to be installed at Stanford University [BW May 23'59,p32]—has been turned over to Prof. W. K. H. Panofsky. **Panofsky, previously deputy director of the project, replaces Prof. Edward L. Ginzton.**

It was announced that Ginzton withdrew because of other demands on his time. However, many observers feel Ginzton's position as board chairman of Varian Associates, a West Coast electronics company, may have been a factor in the switch. Varian's competitors have been highly critical of Ginzton's association with the project. Ginzton is being retained as a consultant to the university.

The accelerator project was recommended by Pres. Eisenhower and approved last summer by Congress. Stanford and the Atomic Energy Commission now are negotiating a contract for its construction. Project engineers hope to break ground at the Menlo Park (Calif.) site early in 1962. Construction will take about six years.

The linear accelerator differs from all other large U. S. accelerators, which are round race-track-like units. **The new accelerator will develop a smashing power of 45-billion electron volts (BEV), by far the most powerful in the free world.**

NASA negotiating contract with Douglas for Saturn rocket engine component

The National Aeronautics & Space Administration, pushing hard now for a manned moon landing by 1967, is negotiating a $50-million-plus contract with Douglas Aircraft Co., Inc., to beef up some of the upper-stage engines for the Apollo space craft's booster system.

If the contract goes through, Douglas will start work on a new engine component for the Saturn S-IV engine, planned as the third stage in the Saturn C-4 more than million-lb.-thrust booster. Saturn S-IV's new engine component—a single Rocketdyne J-2 liquid hydrogen unit developing 200,000 lb. of thrust—will be added to the cluster of six 15,000-lb.-thrust Pratt & Whitney liquid hydrogen engines now being developed for it.

Under terms of the contract, **ten new engines are to be built by 1966;** six for flight missions and four for ground testing. The 1966 deadline would make the engine available for NASA's project to send a three-man Apollo space craft first into earth orbit, then around the moon, and, finally on a moon-trip.

Savannah's nuclear power plant gets final tests before sea trials

The nuclear power plant of the NS Savannah, the world's first atomic-powered merchant ship, has gone critical. The pace of the Savannah project, which has been running months behind schedule [BW Nov.18'61, p106] will quicken once this last tough job—fuel-up and activation—is thoroughly checked out, say Atomic Energy Commission scientists.

The uranium oxide fuel elements were loaded into the ship's pressurized water reactor Dec. 21 at the Savannah's mooring slip in Camden, N. J. **Activation of the power plant is the final test phase before the ship begins its sea trials and goes into service.**

The nuclear power plant will undergo months of testing while the Savannah remains at its berth in New York Shipbuilding Corp.'s Camden yard, where it was built. **The fuel unit's power will be increased gradually, until it is producing seven megawatts—about a tenth of the unit's designed power.** Then the Savannah will be taken to Yorktown, Pa., where its power plant will start producing steam for the first time.

Once the operation of the reactor has been fully tested, the Savannah will begin a year of sea trials. **The $47-million ship, carrying 9,400 tons of cargo, will be put through its paces by States Marine Lines of New York,** which was hired by the U. S. Maritime Administration—the owner of the ship.

December 30, 1961

South America turns winter to summer

The seasons are reversed south of the Equator in the "ABC republics"—Argentina, Brazil, and Chile. So the traveler from up north finds summer climes on a winter vacation. In these sunny lands, you can find almost any attraction—**minus the crowds at winter resorts closer to home.**

Rio de Janeiro is the best starting point, especially at carnival time (March 4-6, get advance tickets to indoor events through your travel agent). But at any time, Rio is a gay city of gleaming white buildings, mosaic serpentine walks, breathtaking mountain vistas.

Stay at the Copacabana Palace along the beach or the Gloria in the center of town. Have cocktails on the terrace of the Miramar Palace, perhaps lunch at the Copacabana pool, or atop the Mesbla building where the restaurant looks out on the bay. For dinner, enjoy French cuisine at Chez Felipe or a Brazilian barbecue at Churrascaria Gaucha.

Night life—all-important in Rio—doesn't start until around midnight. Everybody dances the samba, preferably at the Studium Club. For dancing and a top floor show, try the Night and Day Club. In the wee morning hours, the city's numerous "boites"—almost pitch-black clubs overflowing with people—are a must for Latin atmosphere.

Summer in Rio can be fairly hot, **so you might visit nearby Petropolis, a cooler resort in the mountains.** Stay at Hotel Quitandinha. **To see Brasilia, the new capital** [BW Dec.3'60,p114], the best idea is a one-day air trip from Rio; hotel accommodations in Brasilia are uncertain.

Sao Paulo—art and industry

Sao Paulo is the bustling industrial center of Brazil. Best hotels are the Jaragua and Othon Palace; La Casserole is the top restaurant. Try "pastos" as a first course (meat-filled pastries).

The Jockey Club, with a distinguished membership, is much like the Metropolitan Club in New York. **The city's exhibition hall has an outstanding collection of modern art.**

Because of the favorable dollar-cruzeiro exchange rate, **you'll find good buys everywhere in Brazil.** See the semi-precious stones like aquamarine, topaz, at Sterns or Amsterdams, with shops both in Rio and Sao Paulo. Gold jewelry is especially handsome.

Before leaving Brazil, try to set aside three days for Iguazu Falls, a five hour flight from Sao Paulo. The falls—2½ miles wide—are the highest in the Americas. Hotel Das Cataratas is superior.

The Paris of South America

Buenos Aires is a handsome, cosmopolitan city. Hotel Plaza is centrally located; Alvear Palace in the residential section is more quiet.

Beef served in every possible way is delicious. Best steak house is La Cabana, and El Pescadito in the Italian Boca waterfront section serves marvelous seafood.

Also in the Boca section is a charming outdoor theater featuring shows by Argentine authors. See the true tango danced at the Gong nightclub, and visit Mi Rincon for Argentine folk music and dancing.

For horse lovers there's morning racing at San Isidro and afternoon at Palermo. Cultural activities in summer slow down; but try to see the Colon Opera House in B. A.; it's the pride of Argentina.

Personal business Continued

B.A.'s Avenues Florida and Santa Fe are the main shopping streets. **Leather goods are excellent buys, also woolens, furs—especially nutria.**

The fashionable beach resort of Mar del Plata is a two-hour flight from B.A. The Casino, next to the luxurious Hotel Provincial, is the center of activity. Rent a cabana on beautiful Bristol Beach. And if you're an avid hunter or fisherman, **don't miss the Bariloche region of Argentina.** It's a four-hour flight from B. A., and offers superb trout fishing and wild boar hunting (your hotel can arrange for a permit and a guide).

Chile has its own Riviera

On to Chile and its capital, Santiago, a modern city surrounded by the snow-capped Andes. Have lunch or cocktails at dusk atop San Cristobal at the Restaurant Casino. The Carrera Hotel is A-1; for dining try El Parron.

Enjoy Pacific swimming at Vina del Mar, the South American Riviera. Hotel Miramar has a private swimming pool, beach, Turkish baths. The resort's Casino is world famous.

A few day's rest in the Chilean lake region is a good way to end your trip. **Outstanding are Lake Villarrica at Pucon (Antumalal Hotel) and Lake Llanquihue at Puerto Varas (Puerto Varas Hotel).**

Transportation: Pan Am, Panagra, Braniff, Varig, Aerolineas Argentinas, Lan Chile serve the ABC countries. Special 45-day "around South America" first class jet fare is $950. For more leisurely travel, take the Grace Line on the west coast, Moore-McCormack on the east.

Armchair sports ... in books

The Winning Touch in Golf, by Peter G. Cranford, points up the psychological side of the game, and wins the praises of old hands such as Cary Middlecoff (Prentice-Hall, $7.50). Practicing putts on a carpet, says Cranford, may actually hurt your game—it weakens good habits and can entrench bad ones . . . **The Fireside Book of Boxing** brings together commentators from William Makepeace Thackeray to Bugs Baer, edited by W. C. Heinz (Simon & Schuster, $7.95) . . . **Boats, Boat Yards and Yachtsmen,** by Henry Van L. Baay (Van Nostrand, $6.50), tells how to steer clear of blunders in buying a new light craft . . . Myron Gubitz reviews sharp rules for practice in **The Pro's Handbook of Bowling** (Arco, $2.50) . . . A superior instruction book for the amateur photographer covers all phases from outdoor action shooting to darkroom techniques—Joseph Foldes' **Everybody's Photo Course** (U. S. Camera Publishing Corp., $2.95).

... and television

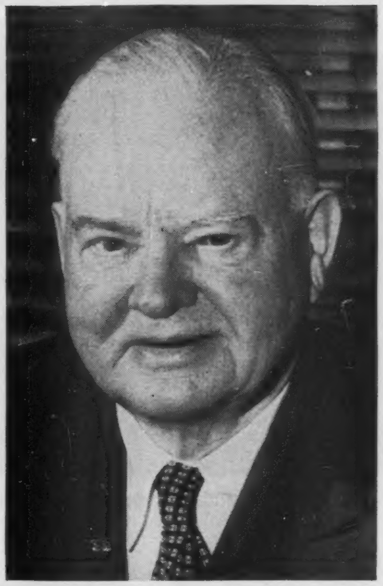
CBS-TV—competing with the Saturday golfing hour on NBC—has a new 1-hr. Sunday afternoon show, starting Jan. 7; leading pros will play top courses, here and abroad. First will be PGA's Jerry Barber against Dai Rees, British Ryder Golf captain, at Wentworth, near London . . . **Meantime, ABC-TV's new 90-min. sports series also starts Sunday, Jan. 7** —covering ski tournaments, auto racing, golf, track, football, with first show the American Football League's All-Star game in San Diego.

Social Security

Reminder: Effective Jan. 1, your Social Security tax goes from 3% to 3⅛%—**this means a jump from $144 to $150 a year.** A point often forgotten is that the full year's tax is taken from your first $4,800 of salary.

For the self-employed, the tax goes from 4.5% to 4.7%—or $216 to $225.60—based on $4,800.

The Advertising Council



HARRY S. TRUMAN: "The dissemination of wartime information through advertising played a vital part in bringing to the people the story of what had to be done to speed victory. Our problems did not end with the war, and there will be many which cannot be solved without the cooperation of the people."

FRANKLIN D. ROOSEVELT: "The voluntary contribution made by advertising men and women under the Council's leadership has been of notable assistance to the Government's wartime information programs. I am gratified to learn that the Council plans to continue its public service."

HERBERT HOOVER: "I congratulate the Council on twenty years' service. I have had occasion to witness (your) effectiveness in raising funds to relieve the famines in Europe and in giving wide publication to the reports of the Commissions on Organization of the Executive Branch of Government."

The Advertising Council, supporting these and many other public service causes with men, materials and money contributed by American business, helps solve more problems and serve more people than any other single private institution.

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Radio Free Europe Fund

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Keep America Beautiful

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Mental Health

Religion in American Life

Contribute–Work–Vote

United Nations

Goals for Americans

Scores of machine tool users crowd demonstration room at New York's Statler Hilton to view Tape-O-Matic in action

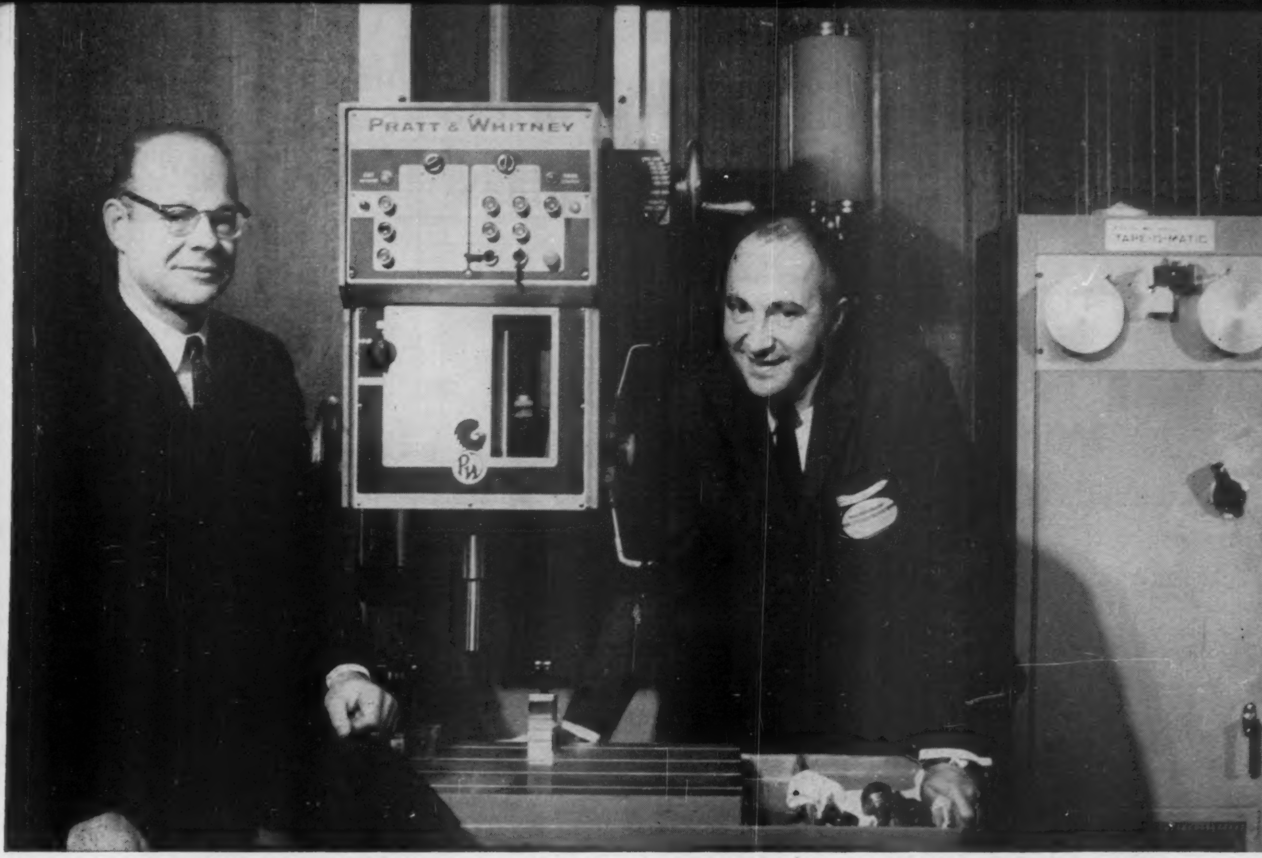
Drill shakes up machine tool trade

Pratt & Whitney Co.'s Tape-O-Matic is the first mass-produced numerically controlled machine tool. Its design, production, and sales patterns strike out in new directions

The numerically controlled drill in the pictures is getting a sales send-off accorded to few other machine tools. The equipment—designed by Pratt & Whitney Co., a part of Fairbanks Whitney Corp.—has been demonstrated in six major cities since late November, and next month will go out to 15 other cities. In Chicago alone, more than 1,500 machine tool users crowded into the O'Hare Inn to see it do its stuff.

Revolution. The single-spindle machine is called the Tape-O-Matic. It may or may not take the industry by storm, but one thing is certain—the Tape-O-Matic's design, production, and marketing patterns really represent a shake-up for the staid old machine tool business:

- The system was designed with both a specific, broad market and a particular price in mind. There was no order on the books beforehand. "Normally in this business," says Daniel C. McCarthy, P&W's new president, "you build a new machine only if you have a customer waiting for it." So, ordinarily the first machine is almost handcrafted, and the customer pays on that basis—often dearly. "Then," says McCarthy, "you use it as a prototype to get other customers, and if you're lucky, you build a machine here, and another there."
- This will be the first mass-produced numerically controlled machine tool, and the first offered at a "volume price"—$8,595. Much of the savings comes from the elimination of a double profit. P&W supplies its own numerical controls for the machine tool—rather than bringing another supplier into the picture—so a customer doesn't end up paying two profits. Other U. S. built machines with roughly the same talents may run two or three times that much or even higher. P&W won't say anything about its production rate or how many orders it has—only that it will be in full production by mid-January, with first deliveries slated for three months later. "We won't be talking any more in terms of machines per month or per week," says Paul Stanton, P&W's vice-president of marketing. "Now, it'll be machines per day."
- P&W is selling its machine like a kitchen appliance. The customer gets a five-year warranty on all parts



With the Tape-O-Matic are Daniel C. McCarthy (left), P&W president, and Paul Stanton, vice-president of marketing

and workmanship, plus a 90-day, money-back guarantee.

Rare features. The object of this unique production and sales approach has some pretty rare features itself. The Tape-O-Matic's circuitry is completely transistorized, using 240 postcard-size circuit boards. About 80% of them hold four basic printed circuits. The boards merely plug end-first into the system, and can be quickly yanked out if trouble develops. Most other machine tools with fully transistorized numerical positioning controls start at $25,000 or higher.

An important design feature is the way the Tape-O-Matic positions on both the "X" and "Y" axes simultaneously, rather than twisting the work table along one axis at a time. This way, by taking the shortest distance between two points—the spot where the drill is and the spot where it should cut its next hole—machining speed is stepped up.

"There's been a pick-up in the sale of non-solid state controls," says one official at the National Machine Tool Builders' Assn., "simply because at today's prices, many machine tool users otherwise can't afford the machines."

Another design plus is termed "full-floating zero." Normally, each work piece placed on the work table of a tool must be zeroed in on the machine so the cut is made at a precise point. The Tape-O-Matic has a button that automatically adjusts a zero reference point to the work piece. In other words, the machine adapts to the work piece, rather than the work piece being adapted to the machine. This cuts down much of the tedious mathematics in programming.

Industry pep pill. P&W's road show to ballyhoo the Tape-O-Matic is another new twist. Members of the National Machine Tool Builders' Assn. (including about 200 major producers) have agreed not to exhibit their wares at any trade show except the National Machine Tool Show, held every five years. They can stage their own private exhibits, but seldom do—at least not on the grand scale of the Tape-O-Matic's coming out.

P&W feels the industry needs something like this to shake it out of its doldrums. U. S. machine tool sales abroad are booming, but domestic business has been slumping for years, owing mostly to an over-expansion of machine shop capacity right after the war and during the early 1950s. Now, U. S. machine tool users—many running their shops at only 60% or 70% of capacity—are just not eager to replace obsolete equipment, at least at present-day prices.

This industry slump is not the only thing that worries P&W. It is haunted by other problems much closer to home. In 1958, the company was hit hard by the recession; it was hurt also by the proxy fight waged by Penn-Texas Corp. for control of Fairbanks, Morse & Co. [BW Sep. 13'58,p42]. At that time, Penn-Texas was P&W's parent company.

Enter Tape-O-Matic. In September, 1960—when the company was still numb from its 1958 setbacks—P&W executives got their idea of the Tape-O-Matic. They were flying to Chicago for the 1960 National Machine Tool Show. "Spirits were at an all-time low," one P&W veteran recalls. "It was the company's 100th anniversary, but we were celebrating it by laying off workers with 17 and 18 years of seniority. We didn't even have the cash for a big exhibit at the show. This was something we needed—not only for business, but morale."

Then the question came up: Why not build a numerically controlled tool that could be mass produced for a volume market? This would keep the shop humming in slack periods. By the time the plane touched down in Chicago, Jacob J. Jaeger, P&W's president at the time, decided to

The philosophy behind Tape-O-Matic is part of a broad new pattern at P&W . . .

Story on page 98

mass produce "something" that was numerically controlled.

A drill was decided on after a battery of market research studies showed that about 80% of the metal removed in machine shops—at least, among those polled by P&W—was drilled out, and that all the drills doing this work were over 10 years old. At that point, P&W engineers and designers took over.

Programming. McCarthy is the first to admit P&W's rose isn't without its thorns. The price on the basic Tape-O-Matic does not include tape-punching equipment for producing the tool's instructions. And Friden, Inc.'s basic "Flexowriter," the most widely used keypunch unit, runs about $3,600. This is almost half the cost of the whole Tape-O-Matic, so P&W is offering two lower-priced, alternative tape-punchers. One made by Soroban Engineering, Inc., sells for $2,800; the other, just designed by Ultra-Sonic Precision Co., Inc., will sell for $1,500, and possibly less, "if the market responds." Though these punchers are less sophisticated than the Flexowriter, they still do the job, P&W claims.

For customers who balk even at these lower prices, P&W is setting up 11 tape processing centers around the country next month, for punching out tapes.

Auto patterns. The whole philosophy behind Tape-O-Matic—mass production and low, volume prices —is part of a broad new pattern of doing business at P&W. More and more, the machine tool maker is emulating the auto industry. Last year, the company shifted from direct factory sales to a distributor network [BW Mar.19'60,p59], and this year, P&W announced that a new company within Fairbanks Whitney would take customer trade-ins of old, surplus machines and apply them toward purchases of P&W machines [BW Mar.4'61,p42].

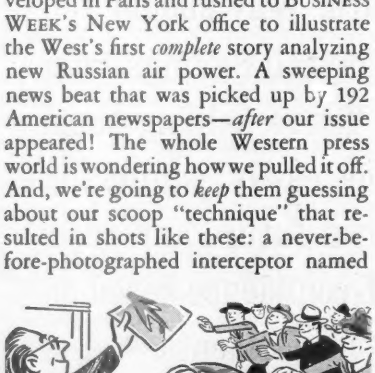
McCarthy, who came out of the auto industry, will probably further this trend. He joined Ford after the war, and moved over to Chrysler in 1956 as director of its manufacturing staff. He joined P&W as administrative vice-president last year and went up to president last month. Jaeger resigned from the position eight months ago. **End**

Minding our own business

BACKSTAGE AT BUSINESS WEEK

Air scoop. Forgive us for seeming immodest, but we're bursting with pride about BUSINESS WEEK's photographic coup at the recent Moscow air show. Despite a tight Soviet camera ban, our photographer-sleuth snapped shots of Russia's new supersonic planes right under the collective noses of the Soviet

brass. Within hours after filming, these very unofficial photographs were developed in Paris and rushed to BUSINESS WEEK's New York office to illustrate the West's first *complete* story analyzing new Russian air power. A sweeping news beat that was picked up by 192 American newspapers—*after* our issue appeared! The whole Western press world is wondering how we pulled it off. And, we're going to *keep* them guessing about our scoop "technique" that resulted in shots like these: a never-before-photographed interceptor named



"Blinder" and a new long-range turbo-jet bomber. The bomber was so new that NATO observers at the show didn't even know it existed until the "fly-by". BUSINESS WEEK's exclusive pictures gave the free world its first chance to examine the plane designs "close up"—and gave our management subscribers another example of our magazine's significant, up-to-the-minute coverage of the international, business and economic news.

D.c. power line proposed for West

Interior Dept. sees no technical or economic barrier to unconventional project—power lines generally are a.c.—but a political storm is almost sure to arise

A proposal for a new kind of electric power line, using direct instead of alternating current, is fanning the fire of the old squabble over government vs. private power.

An Interior Dept. task force recommended the 1,000-mi. line to link the Bonneville hydroelectric projects on the Columbia River with California's markets and steam plants. The proposal calls for a 375,000-volt line, with capacity of 650 to 2,500 megawatts (thousands of kilowatts). The line would:

- Open up a California market for \$9-million to \$15-million annual sales of "secondary" or "interruptible" power that's not now being taken from the Bonneville dams. This power would presumably become more salable when its continuance was backed up by as much as 400 megawatts of power from steam plants in California, which could be fed to the Northwest.
- Reconcile the peak demands of the Northwest (in winter, for heating) and California (in summer, for cooling).

Economically feasible. The ink was scarcely dry on the proposal when the controversy erupted. But the debate was on the political angles rather than the technology.

Direct current has major advantages over alternating current when large quantities of power are to be moved hundreds of miles. With d.c., line losses are smaller; transmission requires only two wires per circuit, compared with three for a.c. D.c. transmission has been held up chiefly by the high cost of terminal equipment to convert the current from one form to another.

Now a Swedish company, ASEA Co., offers terminal equipment that makes long-distance d.c. transmission economically feasible, according to Interior's task force. General Electric Co. also offers the same equipment, under a licensing agreement with ASEA.

Power resistance. The Interior Dept. proposal has a rocky road to travel. Senate and House Interior committees will go over it with a fine-toothed comb; a fight in both appropriations committees might follow the lines of the recent one over a proposed transmission grid for an Upper Colorado River project.

Power companies are, of course, sensitive to any expansion of the government's role in the power field. While Interior Secy. Stewart L. Udall denies that the proposed d.c. transmission line is the first step toward a nationwide federal power grid, he says it would be suitable for use in such a grid. He also said that new task forces may be picked to study more such interconnecting lines between federal power systems.

"If applied nationwide," Udall says, d.c. transmission could provide "significantly" lower rates for power customers. He points to the possibility of moving power in big volume over d.c. lines to major markets from huge generating plants near lignite fields in the Dakotas, from mine-mouth power plants in the coal-rich Appalachians, and from such low-cost hydroelectric areas as the Pacific Northwest and Alaska.

Udall may ask for construction funds in the 1963-64 fiscal year. A start then could assure operation of the line by 1966. Cost is estimated at more than \$200-million.

Other worriers. Privately owned power companies aren't the only critics of such a project. Some customers for Bonneville power also see cause for worry in (1) the loss of their area's reserves of power to California customers and (2) the possibility of higher rates for themselves after California's high-cost power is mingled with Bonneville's low-cost power.

And, of course, the producers of the coal and oil that run the utilities' giant steam turbines aren't at all happy at any arrangement that would substitute more hydro power for steam-generated power. **End**

Magazine Publishers Association
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Index of advertisers December 30, 1961

Where our foreign policy goes wrong

In the midst of the conflict and confusion that can be expected to embrace a large part of the world in 1962, there is one encouraging prospect. It is the emergence of Western Europe as a strong and unified force in world affairs (page 58).

Although the European Economic Community is having its troubles in reaching agreement on a common agricultural policy, and serious hitches could well develop before Britain gains membership in EEC, there can be no doubt that a creative process is under way in Europe—one from which the free world should be able to gain new strength in its struggle against Communism. As Pres. Kennedy noted recently in a speech advocating freer trade with Europe, "The stunning evolution of Western European economic unity . . . presents the West at this time with an historic opportunity to seize the initiative again."

More than just trade

If we actually are to seize this opportunity, however, it is not enough for the U.S. simply to move toward trade liberalization, essential as that may be in building a closer partnership in the Atlantic Community. The Administration also must recognize that, in other respects as well as trade, Western Europe is the indispensable collaborator of the U.S. in defending the free world. To be specific, this means the U.S. cannot afford the dubious luxury of flying in the face of European opposition, as it has in the Congo, to satisfy the demands the Afro-Asian bloc makes through the U.N.

State Dept. officials, to be sure, maintain that it has been necessary for the U.S. to support the U.N. military attack against Katanga in order to stabilize the Leopoldville government, save the U.N. from total frustration, and satisfy "world opinion."

In reality, of course, the present Leopoldville government is mainly the creation of the Afro-Asian neutralists, with India at their head. These nations first blocked any U.N. action against the pro-Soviet followers of Lumumba and paved the way for the same people to be included in the central government. Thus, to save the U.N. in the Congo, we have allowed ourselves to be dragged along on India's kite. Moreover, it now appears that the U.S. is expected to buy $100-million worth of U.N. bonds to save it from a state of bankruptcy brought on largely by its Congo operation.

To make matters worse, when India broke the U.N. charter by invading Goa, we were unable to get even a resolution of censure out of the U.N. This failure, plus our earlier stand in supporting a resolution to investigate conditions in Portuguese Angola, now is jeopardizing perhaps our most important air base abroad—that in the Azores.

Whether you consider the desperate need for U.S.-European unity over Berlin or the agonizing effort that is to be made to harmonize our tariff policy with Europe's, it seems the purest folly to let support for the U.N. strain allied relations.

Something clearly has gone wrong with U.S. foreign policy, and with some of the assumptions that lie behind it. To our way of thinking, former Secy. of State Dean Acheson has put his finger on the problem in a little-noticed article that appeared in a recent issue of the Yale Review.

Writing before the Katanga bloodshed or the Goa affair, Acheson warns that the U.S. still is being motivated in its foreign policy by an essentially 19th Century notion. It assumes, as the statesmen of two generations ago assumed, that there is such a thing as a world order that sets a standard for world morality. In fact, neither order nor morality exists on a world scale today, primarily because of the "unbridgeable conflict" between the Communist camp and ours.

As Acheson puts it, "The idea of a worldwide consensus moved by Progress and Perfectibility toward peace, the rule of law and abolition of even the means of force, persists like plants without roots which draw their nourishment from the air." The idea persists, says Acheson, "as a haven for escape from the terrifying harshness of our times." But it is a cruel hoax, since there is no such consensus.

If this is the central self-deception, Acheson continues, others follow from it—the chief one being the belief that the instrumentalities of the rule of law are international organizations in various fields. It is a misguided faith in the efficacy of such organizations that has led to our "public posturing as a friend of the oppressed and the voice of conscience."

Strains on the Alliance

The tragic part of it, Acheson concludes, is that our ambition to be leaders of world opinion—when there is no world community—opens the way for the constant Communist effort to divide the Atlantic Alliance and weaken the free world. Above all, it strains the continued solidarity of the Atlantic Community, on which depends our basic foreign policy goal—to maintain and strengthen an evironment in which free societies can survive and flourish.

These are wise words of Acheson's. They parallel the thinking of many thoughtful people in this country today. It must be hoped that the Administration will pay some heed to them.

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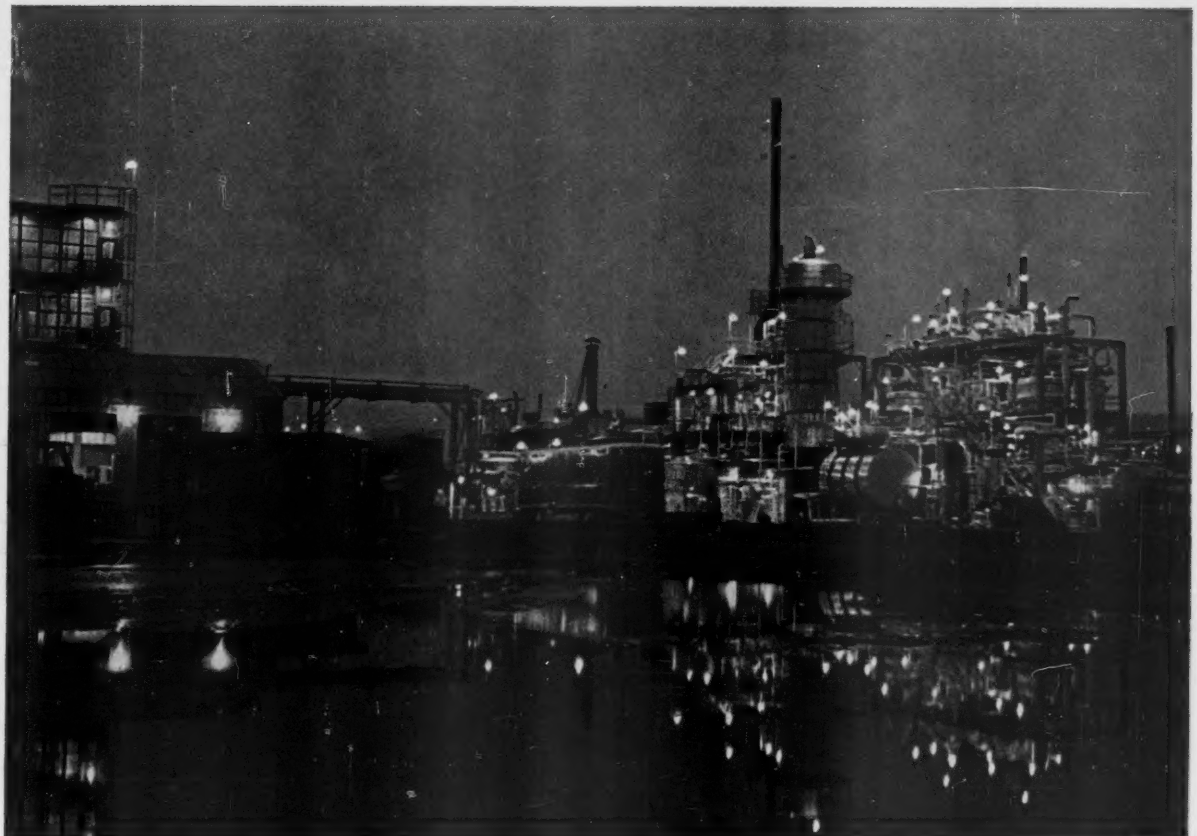

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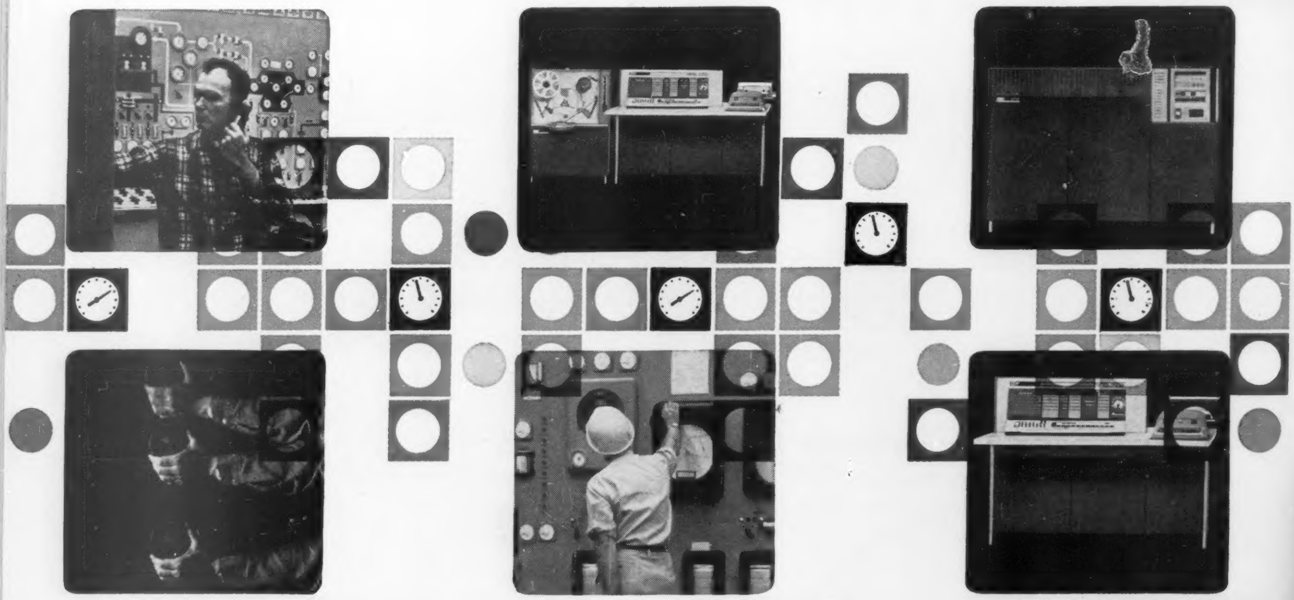

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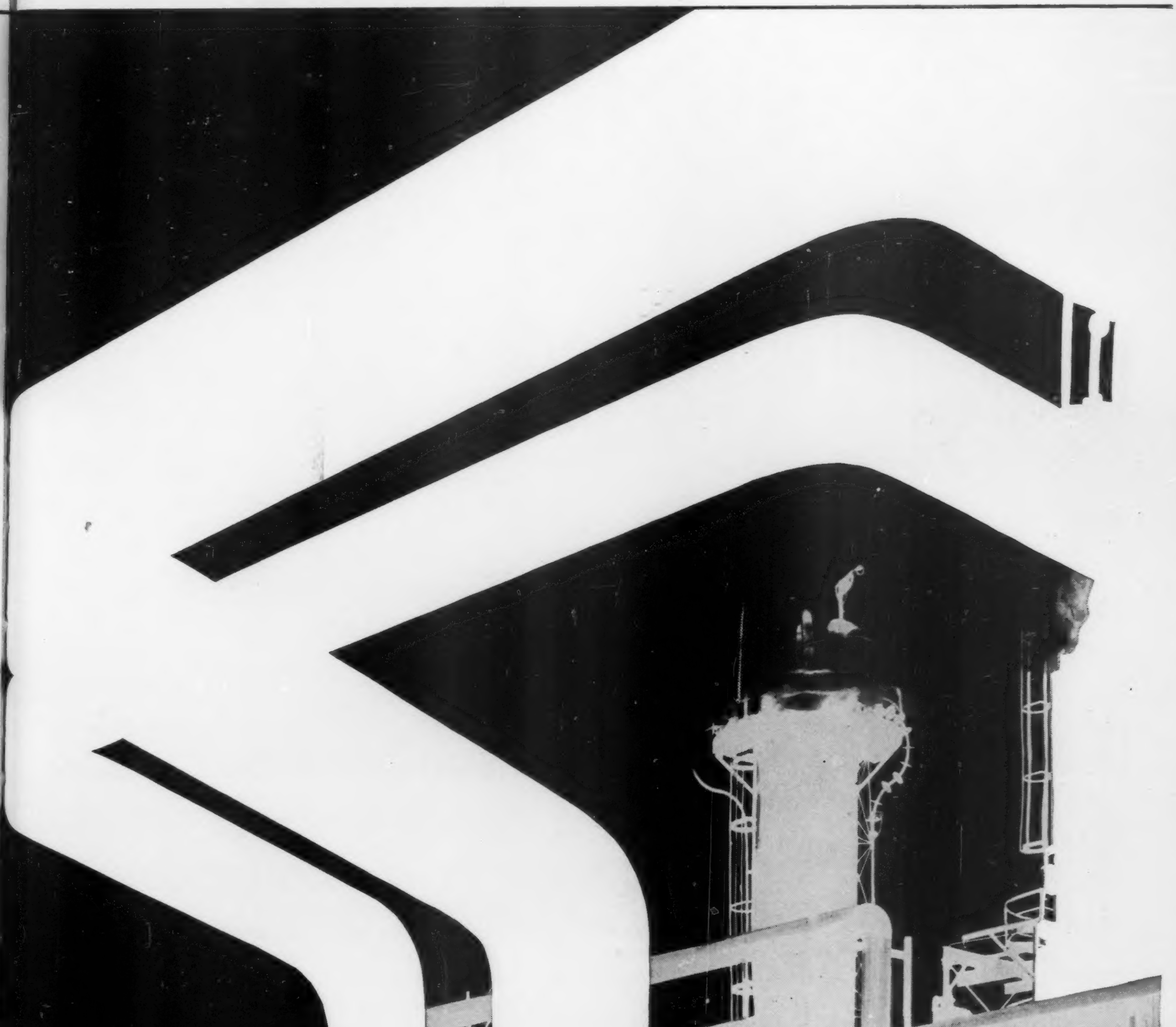

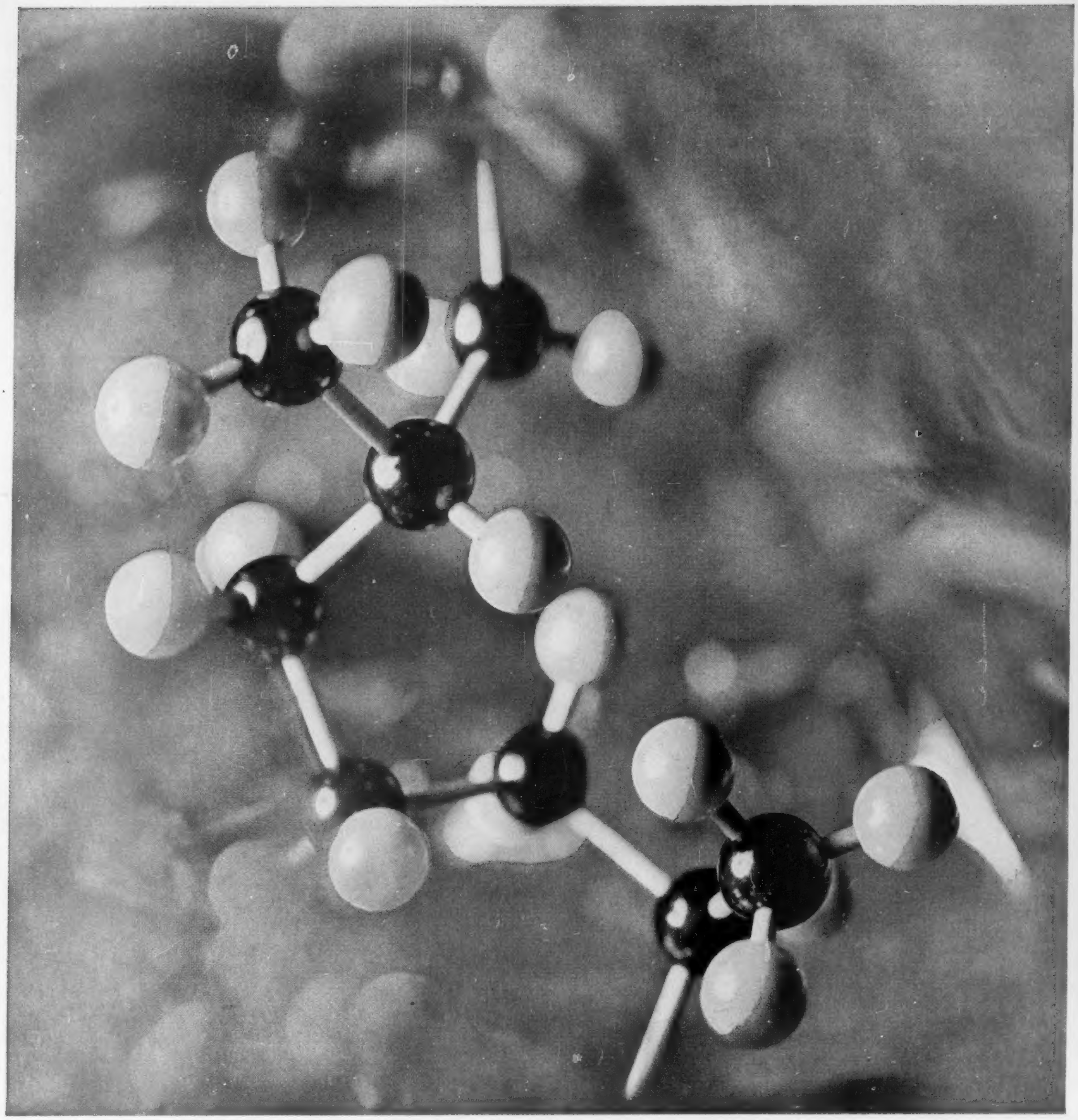

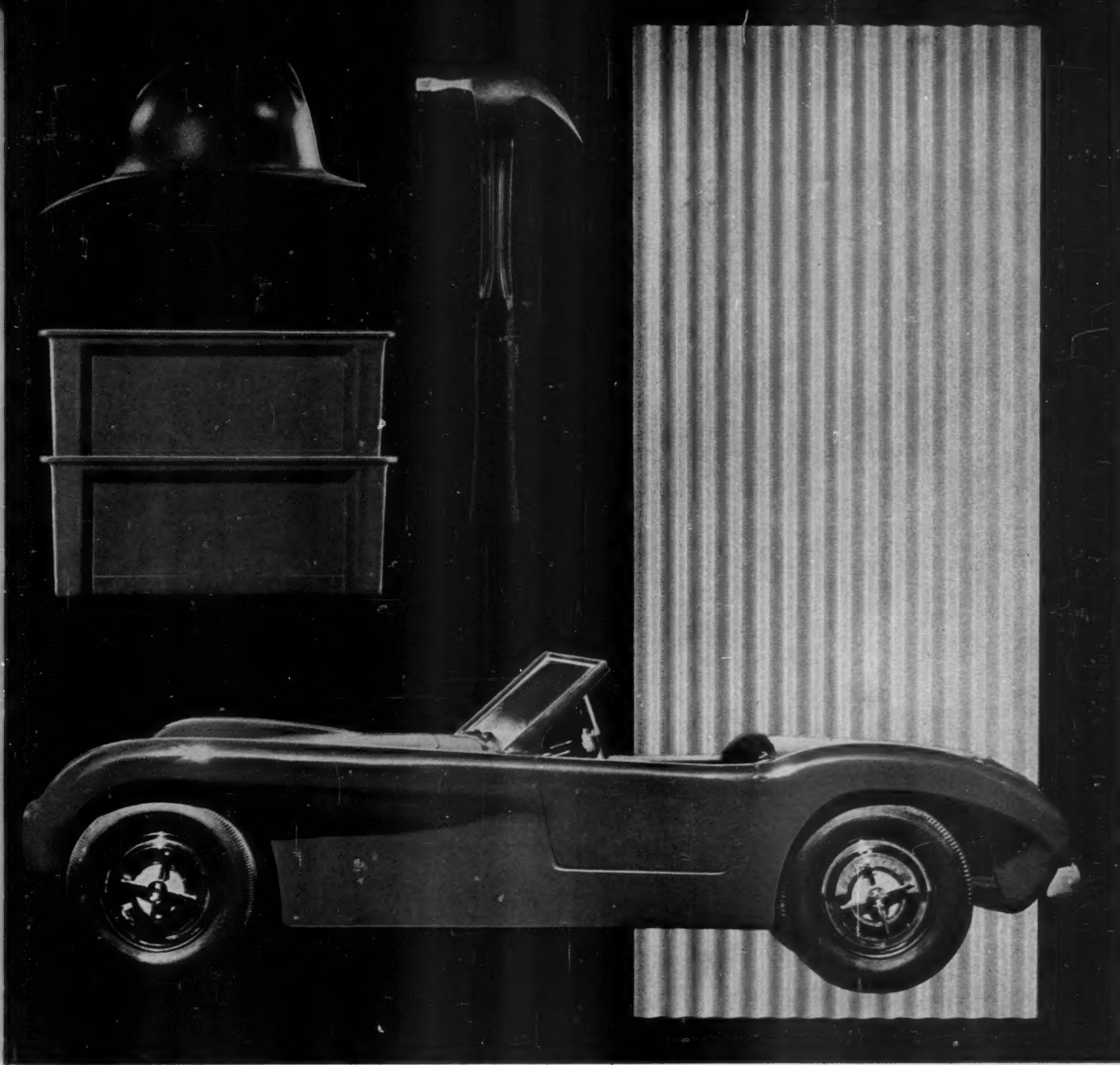

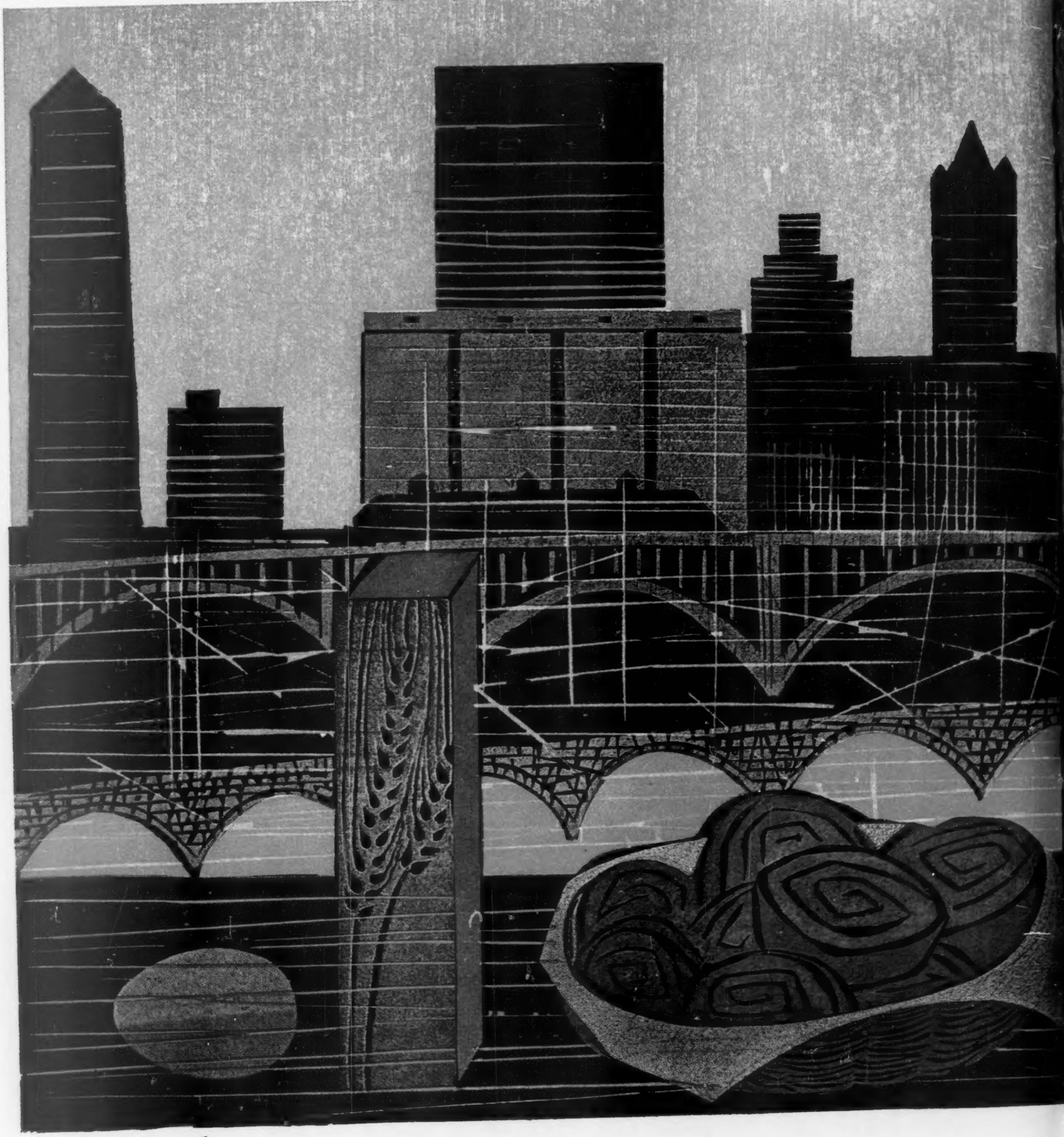

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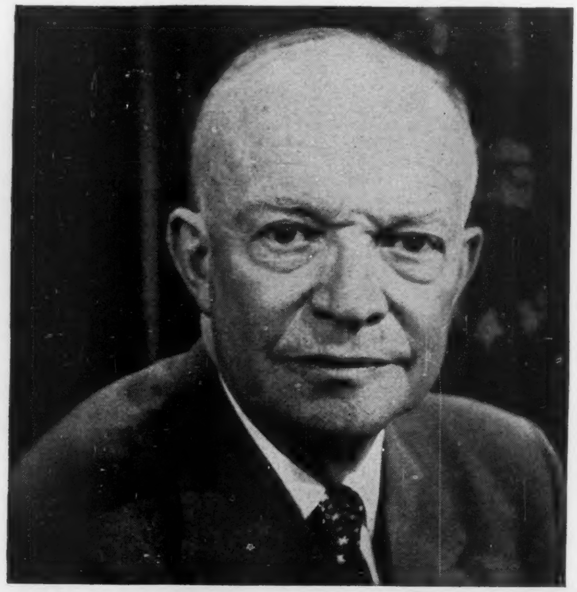

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